

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														
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Contact Person

(632) 706-7888									
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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

801

Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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2nd 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 ...**June 30, 2019**

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) 706-7888**
Issuer's telephone number, including area code

9. **Not applicable**
Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA:

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Class A	183,673,470
Common Class B	122,448,979
Outstanding Debt	₱ 468,781,603

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

Yes [] No []

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

Philippines Stock Exchange

Common Class A and Class B

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

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

14. Not applicable

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

Unaudited Income Statement

Income Statement	Amounts in Php			
	Apr. – Jun. 2019	Apr. – Jun. 2018	Jan. – Jun. 2019	Jan. – Jun. 2018
Sales and services	₱74,873,318	₱72,374,993	₱145,882,840	₱133,203,793
Cost of sales and services	(65,076,062)	(56,809,672)	(117,053,592)	(107,650,512)
Gross profit	9,797,256	15,565,321	28,829,248	25,553,281
Expenses	(8,062,832)	(8,238,410)	(15,809,834)	(16,325,717)
Other income	334,221	19,927	369,882	94,563
Net Income Before Tax	2,068,645	7,346,838	13,389,296	9,322,127
Income tax expense	(4,401,792)	-	(4,401,792)	(807,454)
Net income	(2,333,147)	7,346,838	8,987,504	8,514,673
Attributable to:				
Equity Holders of the Parent Company	(1,399,724)	3,196,425	4,028,768	3,441,072
Non-controlling interest	(933,423)	4,150,413	4,958,736	5,073,601
	(2,333,147)	7,346,838	8,987,504	8,514,673
Earnings Per Share – Equity Holders Of the Parent Company	(₱0.0046)	₱0.0104	₱0.0132	₱0.0112

Unaudited Balance Sheet

Balance Sheet	Amounts in Php		
	Jun. 30, 2019	Jun. 30, 2018	Dec. 31, 2018
Current assets	₱197,473,290	₱190,759,271	₱197,416,344
Noncurrent assets	410,489,286	413,967,977	407,742,348
Total Assets	607,962,576	604,727,248	605,158,692
Current liabilities	339,069,075	271,778,600	345,252,693
Noncurrent liabilities	129,712,528	180,263,842	129,712,528
Total Liabilities	468,781,603	452,042,442	474,965,221
Stockholder's Equity	139,180,973	152,684,806	130,193,471
Total Liabilities and Stockholder's Equity	₱607,962,576	₱604,727,248	₱605,158,692

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

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

a) Key Performance Indicators

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

Metro Alliance

Metro Alliance's key performance indicators include the following:

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

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

Metro Alliance (Parent Company) financial statements registered unaudited net loss of ₱1,114,076 for the second quarter of 2019 as compared to the same quarter of 2018 with net loss amounting to ₱1,108,285 or a decrease in net loss of ₱5,791 or 0.52%.

Comparative analysis of Metro Alliance's key performance indicators as of June 30 is as follows:

Performance indicator	2019	2018
Net Income / (Loss)	(1,114,076)	(1,108,285)
Income / (Loss) per share	(0.004)	(0.004)
Income / (Loss) on average equity	(0.005)	(0.005)
Debt to total assets	0.449	0.442
Debt to equity	0.814	0.791

MCLSI

MCLSI's key performance indicators include the following:

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

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

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

Performance indicator	2019	2018
<u>Profitability</u>		
a. Gross profit margin	0.1976	0.2150
b. Net profit margin	0.0694	0.1170
c. Return on assets	0.0579	0.0490
d. Return on equity	0.1294	0.1240

Liquidity

a. Current ratio	1.6693	2.0580
b. Receivables turnover	1.6786	1.7330
c. Days' sales in receivables	217	211

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

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

b) Changes in Operating Results

Net Income and Earnings Per Share

The Group registered a consolidated net loss of ₱2.33 million for the 2nd quarter of 2019 as against net income of ₱7.35 million for the 2nd quarter of 2018 or a decrease of ₱9.68 million or 131.70% due to higher cost of service and income tax expense recorded for the quarter. Loss per share attributable to equity holders of Parent Company are ₱0.0046 for the 2nd quarter of 2019 and ₱0.0104 for the 2nd quarter of 2018. 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 ₱74.87 million and ₱72.37 million for the quarters ended June 30, 2019 and 2018. The increase in revenue of ₱2.5 million or 3.45% for the 2nd quarter of 2019 is due to inflation rate on of MCLSI's lease and logistics contracts to cover corresponding costs.

Cost of Sales and Services

Total cost of sales and services for the quarters ended June 30, 2019 and 2018 amounted to ₱65.08 million and ₱56.81 million, respectively. The significant increase is due to the increase in revenue from the subsidiary and due to higher cost of delivery of products and services such as fluctuations in oil prices used by delivery trucks and electricity rates, security services and maintenance cost of warehouse facilities.

Operating Expenses

Total operating expenses of the Group for the 2nd quarter of 2019 amounted to ₱8.06 million as compared to ₱8.24 million for the 2nd quarter of 2018 or a decrease of ₱0.18 million or 2.18%.

Other income

Other income for the quarters ended June 30, 2019 and 2018 amounted to ₱334,221 and ₱19,927, 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 for the 2nd quarter of 2019 and 2018 amounted to ₱51.97 million and ₱49.52 million, respectively. Net cash flows provided in operating activities is ₱13.73 million, net cash flows used in investing activities is ₱4.26 million and net cash flows used in financing activities is ₱0.69 million.

Receivables amounted to ₱126.20 million as of 2nd quarter of 2019 and ₱120.02 million as of 2nd quarter of 2018 (net of allowance for doubtful accounts). Movement in the accounts is net effect of (a) increase in trade receivable by ₱7.43 million, (b) increase in other receivable by ₱0.27 million and (d) increase in allowance for doubtful accounts by ₱1.51 million.

Other current assets amounted to ₱19.30 million and ₱23.81 million as of the 2nd quarter of 2019 and 2018 (net of allowance for probable losses of ₱12.87 million and ₱12.87 million for 2019 and 2018, respectively). The decrease by ₱4.51 million in 2nd quarter of 2019 as against the 2nd quarter of 2018 is net effect of decrease in creditable withholding taxes by ₱4.35 million, decrease in input taxes by ₱7.01 million, increase in refundable deposits by ₱1.04 million and increase in other prepayments by ₱5.81 million.

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

Asset held for sale amounting to ₱367.42 million and ₱370.45 million as of June 30, 2019 and 2018 represents advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA).

On March 18, 2006 and September 20, 2006, 40% and 20%, respectively, of Polymax's interest in NPCA was sold. Thereafter management decided to discontinue operations and cease operating as a going concern. The remaining 40% interest which is for sale is valued at ₱900million, which is the estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the major stockholders of the Company in favor of the Company.

Equity investments at FVOCI amounted to ₱24.65 million and ₱26.67 million in June 30, 2019 and 2018, 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.

Property and equipment amounted to ₱8.87 million and ₱4.29 million in June 30, 2019 and 2018, respectively. Increase in property and equipment is net effect of the additions made during the year amounting to ₱0.96 million and depreciation charged of ₱0.84 million.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of June 30, 2019 and 2018, the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

Liabilities

The Accounts payable and accrued expenses for the quarter ended June 30, 2019 and 2018 amounted to ₱280.81 million and ₱262.84 million, respectively. 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.

The *Due to related parties* for the 2nd quarter of 2019 and 2018 amounted to ₱58.26 million and ₱61.81 million, respectively. The Group, in the normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Group did not provide nor received any guarantee on its transaction with related parties.

Accrued retirement benefit cost amounted to ₱6.27 million and ₱3.7 million as of June 30, 2019 and 2018, 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. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation.

Summary of Material Trends, Events and Uncertainties

Petrochemical Project

On December 4, 2003, the Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under

the MOA, the Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Company; (b) the funding for the acquisition would be provided and arranged by the Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Company. In addition, the Company would make certain advances to Polymax.

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

To partially finance the Company's advances relating to the Petrochemical Project, the Company obtained short-term loans from local banks (see Note 17). With the delay in the completion of the activities and the conditions required for the Petrochemical Project, the Company was unable to pay the bank loans on maturity dates. As of December 31, 2006, the amounts payable to the banks totaled ₱ 866.7million, consisting of the outstanding principal balance of ₱378.3million and finance charges of ₱ 488.4million. In 2007 these past due liabilities were transferred to and applied against the advances made to Polymax.

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

On July 7, 2005, Polymax and BPC executed a Deed of Conveyance, transferring to Polymax under an asset for share swap, the petrochemical plant of BPC in exchange for 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 Company, Polymax and NPC International Limited (NPCI) entered into an SPA which provided that, subject to certain conditions, including the transfer of the petrochemical plant of BPC free from encumbrances, NPCI will acquire 60% of the issued share capital of NPC Alliance, Corp. (NPCA) from Polymax.

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

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85million 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 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\$15million representing an advance payment which may be used to fund the bona fide third party costs of NPCA or BPC for the recommissioning, operation and maintenance of the petrochemical plant or such other third party cost or expenses, taxes or duties as agreed between Polymax and NPCI.

On the same date, the Company, NPCI and PIIC entered into a Guaranteed and Indemnity agreement whereby the Company irrevocably and unconditionally guaranteed the prompt performance and observance by Polymax and the payment on demand by Polymax of all moneys, obligations and liabilities

which are now or at any time after the execution of the agreement become due from or owing or incurred by Polymax under or in connection with any of the SPA and the Shareholders' Agreement. The Company also guaranteed that it shall be liable for Polymax's obligations, as if it were a principal debtor, if Polymax's obligations are no longer recoverable from Polymax.

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

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

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

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

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

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

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

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

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

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

It is also apparent from the Parties' submissions to the Tribunal that they agreed that this arbitration should be terminated and that the Tribunal should fix the costs of the arbitration. Further, as only the Claimants have made deposits towards those costs, it is appropriate that, after deducting from those

deposits the cost of the arbitration as fixed by this Order, the balance held by the London Court of International Arbitration (LCIA) should be returned to the Claimants.

Legal case

Case Title : **Metro Alliance vs Commissioner of Internal Revenue**

Factual basis : Assessment for deficiency withholding taxes for the year 1989, 1990 and 1991

Status : On July 5, 2002, the Company received a decision from the Court of Tax Appeals (CTA) denying the Company's Petition for Review and ordering the payment of ₱83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Company filed a Motion for Reconsideration on July 31, 2002 but 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 Company then appealed the decision of the CTA to the Court of Appeals (CA), which likewise denied the appeal and upheld the assessment against the Company. The Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

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

On April 26, 2006, the Company filed a Petition for Review before the CTA en banc. On March 7, 2007, the CTA en banc dismissed the Petition for lack of merit. The CTA en banc affirmed the CTA's decision granting the Motion for Issuance of Writ of Execution filed by the Commissioner of Internal Revenue.

Relief Sought : As of June 30, 2019, the Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable. Management believes, however, that the ultimate outcome of the case will not have a material effect on the consolidated financial statements.

Case Title : **Metro Alliance and Philippine Estate Corporation vs Philippine Trust Company, et al., Civil Case SCA#TG-05-2519**

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

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

Status : On September 14, 2005, Metro Alliance Holdings & Equities Corp. (MAHEC) and Philippine Estate Corporation (PEC) filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, and Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sale, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction. The case stemmed from the imminent extra-judicial foreclosure of four (4) mortgaged Tagaytay lots covered by Transfer Certificate of Title (CTC) Nos. T-35522, T-35523, T-35524 and T-35552 subject to the Real Estate Mortgage executed by MAHEC and PEC securing ₱280M loan obtained by MAHEC and PEC last December 2003.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction. The preliminary injunction issued by the RTC stopping the foreclosure was nullified by both Court of Appeals and Supreme Court, after which Philtrust proceeded to foreclose, and acquired those properties for only ₱165.8M. When MAHEC and PEC failed to redeem, Philtrust consolidated title, and Tagaytay Registry of Deeds issued new TCTs, cancelling PEC's TCT.

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

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

On February 21, 2019, the defense presented its second witness, Mr Godofredo Gonzales, as appraiser of Philippine Trust Group. However, the cross-examination of the witness was reset to June 27, 2019. Atty. Rex Sandoval, MAHEC's representative has likewise attended the previous hearings date February 22 and March 22 of 2018.

Relief Sought : As of June 30, 2019, the case is pending resolution with the Regional Court of Tagaytay, Branch 18 SCA# TG-05-2519. The Parent Company was able to get the formal trial started and on-going. The Company's most important move was the presentation of a very competent real estate appraiser, realtor, Cesar Santos, who was able to successfully defend in court his ₱811.6M valuation of the foreclosed Tagaytay properties. 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 counsel cross examination wherein they obtained many damaging admissions against the Bank. Plaintiff's counsels cross examination will resume at trial hearing set for 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.

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

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

Name of Court : Regional Trial Court Makati City Branch 145

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

The above case was consolidated with other case of affiliated company with the same RTC. In 2013, Company's legal counsel brought Zen Sen Realty Devt. Corp. as defendant also, and prayed that the PVB sale to it be nullified.

In October 2014, Company's legal counsel dropped Zen Sen Realty as an unnecessary defendant, after which DECISION was rendered vs. PVB on January 9, 2015, declaring the ₱550M loan (total loan of MAHEC, Polymax, Wellex and other affiliated companies) as fully paid, and even over-paid; discharging all the mortgages, and voiding the 2012 sale made to Zen Sen. PVB was ordered to refund to plaintiffs the ₱3.25M overpayment. PVB filed a motion for reconsideration which was denied. PVB filed Notice of Appeal to Court of Appeal on May 8, 2015, which the Company's legal counsel questioned as defective, but the RTC ruled against the Company in its May 12, 2015 Order. The consolidated case is now on appeal in the Court of Appeals as CA-GR CV#105323. Appellant-defendant Bank filed last December 2016 its Appellant's Brief.

The Company'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. Appellees' Brief was filed February 24, 2017. On June 29, 2017 the appeal filed by defendant –appellant PVB is partly granted. The decision dated January 9, 2015 and order dated April 17, 2015 of the RTC, Branch 145, Makati City in Civil Case No. 08-555 and Civil Case No. 38-V-10 are affirmed but modified. On August 1, 2017, the Company filed a Motion for Reconsideration that as of November 2, 2006, plaintiffs' overpayment was ₱52.7 million. As of December 31, 2017, the Company received a copy of the Comment/Opposition of appellant PVB. The Company's legal counsel are now studying and working on the arguments/refutations raised by PVB.

This Case become SC GR 2405495, "Metro Alliance et al. vs. PVB"; and "PVB vs. Metro Alliance et at." SCGR no. 240513. Both Metro Alliance and PVB filed their respective Petitions for Review in relation to the Decision of the CA (dated 28 February 2018 and its affirmation through a Resolution dated 02 July 2018) in the above referenced case. In GR No. 240513, PVB filed a Manifestation that there is another petition (GR No. 240595) pending with the Supreme Court. Considering that undersigned is collaborating counsel, copies of orders and other rulings are being sent to the principal counsel.

As of June 30, 2019 there are now a consolidated petitions: a) the petition for review on Certiorari filed by MAHEC, Polymax Worldwide Limited (Polymax), and Wellex, docketed as G.R. No. 240495, and b) the petition for review filed by Philippine Veterans Bank (PVB), docketed as G.R. No. 240513. Both petitions assail the rulings of the Court of Appeals in C.A. G.R. CV No. 105323. MAHEC, et al. basically argue the following: a) the Court of Appeals should have dismissed outright PVB's Notice of Appeal for failure to state the material dates showing the timeliness of said appeal; b) the Court of Appeals exceeded its jurisdiction in motu proprio ruling that the interest rate of 12%, instead of 6%, applies to this case; and c) the Court of Appeals disregarded the well-settled jurisprudence that the courts have the discretion and authority to equitably reduce interest rates, as reason and equity demand, when the stipulated interest rate are void.

The case is still pending as of this date.

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

Factual basis : Petition for Lifting of Trading Suspension

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

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

The Company and PSE representatives met last November 5, 2015 to discuss the status of the petition and other matters to update the Exchange on the Company's operations and informed that the settlement of the issues involving Polymax Worldwide Limited will be reflected in the Company's 2015 Audited Financial Statements. PSE, on their letter dated January 19, 2016, advised the Company that it will proceed with the completion of its evaluation of the Company's petition upon the Company's submission of the disclosure of the results of its operations and the filing of its 2015 Audited Financial Statements. The Company received various correspondences from PSE in 2016 as part of the evaluation of the Company's petition.

Relief Sought : On June 4, 2018, the Exchange has resolved to grant the Company's request to lift the trading suspension of its shares after a careful consideration of the facts and circumstances of the Company's case and a comprehensive review of the Company's disclosures and representations vis-à-vis the requirements under the Disclosure Rules. The Exchange considered, among others: (i) the Company's compliance with the disclosure requirements of the Exchange, thus addressing the grounds and reasons why the Exchange imposed the trading suspension on May 21, 2007; and (ii) the SEC's decision setting aside the Order of Revocation on the Company's registration and permit to sell securities. The Exchange has likewise noted the Company's representations regarding its business plans, including its capital build-up program.

Events that will Trigger Direct Contingent or Financial Obligation

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

Material Off-balance Sheet Transactions, Arrangements, Obligations

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

Commitment For Capital Expenditures

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

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

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

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

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

Material Changes on Line Items in the Financial Statements

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

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

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

PART II – OTHER INFORMATION

(1) Market Information

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
2019	First Quarter	1.73	1.68	1.73	1.68
	Second Quarter	1.60	1.58	1.60	1.58
2018	First Quarter	-	-	-	-
	Second Quarter	2.72	2.53	2.87	2.50
	Third Quarter	1.59	1.54	1.59	1.54
	Fourth Quarter	2.09	1.90	2.09	1.90
2017	First Quarter	-	-	-	-
	Second Quarter	-	-	-	-
	Third Quarter	-	-	-	-
	Fourth Quarter	-	-	-	-
2016	First Quarter	-	-	-	-
	Second Quarter	-	-	-	-
	Third Quarter	-	-	-	-
	Fourth Quarter	-	-	-	-

As observed, there are no high and sales prices for 2017 and 2016 since the Philippine Stock Exchange suspended the trading of the Company for non-compliance with the submission of structured reports such as annual and quarterly report since 2007. PSE effectively lifted the Company's trading suspension last June 4, 2018. The high, low and close market prices are ₱1.60, ₱1.58, ₱1.58 as of June 30, 2019.

(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 June 30, 2019, there are 1,008 holders of Class "A" shares and 392 holders of Class "B" shares.

List of Top 20 Stockholders As of June 30, 2019

	Stockholder's Name	Number of Shares		Percentage to Total
		Class A	Class B	
1	CRESTON GLOBAL LIMITED		56,378,388	18.417
2	PCD NOMINEE CORPORATION (FILIPINO)	19,666,930	29,447,790	16.044
3	CHESA HOLDINGS INC.	40,500,000		13.23
4	PACIFIC WIDE REALTY & DEVELOPMENT CORP.	31,498,000		10.289
5	FORUM HOLDINGS CORPORATION	14,442,356	13,432,644	9.738
6	MISONS INDUSTRIAL AND DEVELOPMENT CORP.	22,000,000		7.187
7	PACIFIC CONCORDE CORPORATION	6,329,500	9,503,908	5.172
8	REXLON REALTY GROUP, INC.	12,200,000	2,673,112	4.859
9	CHARTERED COMMODITIES CORP.	11,296,000		3.69
10	MIZPAH HOLDINGS, INC.	10,128,700		3.309
11	WILLIAM GATCHALIAN	2,091,000	1,481,500	1.167
12	PACIFIC REHOUSE CORP.	1,258,000	1,670,000	0.956
13	PCD NOMINEE CORPORATION (NON-FILIPINO)	2,520,452		0.823
14	FORUM HOLDINGS CORPORATION	1,934,500		0.632
15	TIN FU OR TRAJANO		820,000	0.268
16	CTBC TA# 5-C184: ZUELLIG CORP.	684,829		0.224
17	REXLON GATCHALIAN	600,000		0.196
18	VICTOR GAN SY	400,000	200,000	0.196
19	BDO TIG AS TRUSTEE FOR FEDERAL PHOENIX ASSURANCE CO., INC.	480,490	25,502	0.165
20	W. DUMERMUTH		472,600	0.154

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

“Annex A.1”

	30-Jun-19 Unaudited	30-Jun-18 Unaudited	31-Dec-18 Audited
ASSETS			
Current Assets			
Cash (Note 9)	P51,967,205	P49,525,158	P43,193,209
Receivables – net (Note 10)	126,202,234	120,020,945	131,836,910
Other current assets (Note 11)	19,303,851	21,213,168	22,386,225
Total Current Assets	197,473,290	190,759,271	197,416,344
Noncurrent Assets			
Assets held for sale (Note 12)	367,416,621	370,450,223	368,819,938
Equity instrument at FVOCI (Note 13)	24,646,285	26,669,885	22,646,285
Property and equipment – net (Note 14)	8,870,036	4,293,052	6,720,886
Deferred tax assets – net	4,615,833	4,533,081	4,615,833
Other noncurrent assets (Note 15)	4,940,511	8,021,736	4,939,406
Total Noncurrent Assets	410,489,286	413,967,977	407,742,348
TOTAL ASSETS	607,962,576	604,727,248	605,158,692
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Note 16)	280,807,029	262,840,908	286,301,125
Due to related parties (Note 17)	58,262,046	61,814,580	58,951,568
Total Current Liabilities	339,069,075	324,655,488	345,252,693
Noncurrent Liabilities			
Non-current portion of accrued liability	123,438,803	123,438,803	123,438,803
Accrued retirement benefit costs	6,273,725	3,777,033	6,273,725
Deferred tax liability	-	171,118	-
Total Noncurrent Liabilities	129,712,528	127,386,954	129,712,528
Total Liabilities	468,781,603	452,042,442	474,965,221
Stockholders' Equity			
Equity attributable to equity holders of the Parent Company			
Capital stock	306,122,449	306,122,449	306,122,449
Additional paid-in capital	3,571,923	3,571,923	3,571,923
Deficit	(216,314,530)	(212,876,792)	(220,343,298)
Remeasurement gain on retirement plan	4,104,719	4,105,556	4,104,719
Fair value reserve	6,375,322	10,398,922	6,375,322
	103,859,883	111,322,058	99,831,115
Non-controlling interests	35,321,090	41,362,748	30,362,356
Total Stockholders' Equity	139,180,973	152,684,806	130,193,471
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	P607,962,576	P604,727,248	P605,158,692

(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”

	Unaudited Apr. – Jun. 2019	Unaudited Apr. – Jun. 2018	Unaudited Jan. – Jun. 2019	Unaudited Jan. – Jun. 2018
NET SALES				
Services	₱74,873,318	₱72,374,993	₱145,882,840	₱133,203,793
COST OF SERVICES (Note 14)	65,076,062	56,809,672	117,053,592	107,650,512
GROSS PROFIT	9,797,256	15,565,321	28,829,248	25,553,281
Expenses (Note 15)	8,062,832	8,238,410	15,809,834	16,325,717
Other income	334,221	19,927	369,882	94,563
INCOME BEFORE INCOME TAX	2,068,645	7,346,838	13,389,296	9,322,127
INCOME TAX EXPENSE	4,401,792	-	4,401,792	807,454
NET INCOME	(2,333,147)	7,346,838	8,987,504	8,514,673
Net income attributable to:				
Equity holders of the parent company	(1,399,724)	3,196,425	4,028,768	3,441,072
Minority interests	(933,423)	4,150,413	4,958,736	5,073,601
	(2,333,147)	7,346,838	8,987,504	8,514,673
Basic/Diluted Income Per Share				
Net loss for the year attributable to the Equity holders of the Parent Company*	(₱0.0046)	₱0.0104	₱0.0132	₱0.0112

*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.4"

	For the Quarter Ended June 30	
	2019	2018
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock - ₱1 par value	₱306,122,449	₱306,122,449
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		
Additional Paid-in Capital	3,571,923	3,571,923
Deficit		
Balance at beginning of the year	(220,343,299)	(222,096,817)
Adjustment to beginning balance of retained earnings		705,354
Net income	4,028,768	8,514,673
Balance at end of the period	(216,314,530)	(212,876,790)
Other Reserves:		
Revaluation reserve on available-for-sale financial assets	6,375,322	10,398,922
Remeasurement Gain (Loss) on Retirement Plan	4,104,719	4,105,556
	10,480,041	14,504,478
EQUITY ATTRIBUTABLE TO HOLDERS OF PARENT COMPANY	103,859,883	111,322,060
MINORITY INTERESTS	35,321,090	41,362,748
TOTAL STOCKHOLDERS' EQUITY	₱139,180,973	₱152,684,808
<i>(The accompanying notes are integral part of these financial statements)</i>		

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

“Annex A.3”

For the quarters ended June 30,	Unaudited 2019	Unaudited 2018
CASH FROM OPERATING ACTIVITIES		
Income before income tax	₱13,389,296	₱9,322,127
Adjustments for:		
Prior period adjustment	-	705,354
Change in minority interest	(4,958,734)	15,915,956
Depreciation and amortization	1,587,631	1,137,857
Interest income	(72,458)	(36,760)
Operating income (loss) before working capital changes:	9,945,736	27,044,534
Decrease (increase) in receivables	5,634,676	(3,234,223)
Decrease (increase) in prepaid expense and other current	3,639,314	(6,279,291)
Increase (decrease) in accounts payable and accrued expense	(5,494,096)	(2,170,727)
Income tax paid	-	(807,454)
Net cash flows provided (used in) operating activities	13,725,630	14,552,839
CASH FLOW FROM INVESTING ACTIVITIES		
Interest received	72,458	36,760
Collection from asset held for sale	1,403,317	-
Decrease (increase) in other non-current assets	(249,218)	(2,396,596)
Acquisition of equity investments	(2,000,000)	-
Acquisition of property and equipment	(3,488,669)	(835,628)
Net cash flows provided by (used in) investing activities	(4,262,112)	(3,195,464)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payment of):		
Dividends paid	-	-
Advances from/(to) related parties	(689,522)	2,598,861
Payment of retirement benefit	-	(969,685)
Net cash flows provided by (used in) financing activities	(689,522)	1,629,176
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,773,996	12,986,551
CASH AND CASH EQUIVALENTS – BEGINNING	43,193,209	36,538,607
CASH AND CASH EQUIVALENTS – END	₱51,967,205	₱49,525,158

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

1. CORPORATE INFORMATION

METRO ALLIANCE HOLDINGS & EQUITIES CORP. (MAHEC or the Parent Company) is incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Group”) are involved in contract logistics. Certain subsidiaries previously engaged in the importation and distribution of polypropylene resin and pharmacy management had ceased operations.

The new registered office address of the Parent Company is at 35th Floor One Corporate Center, Dona Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City.

In 2015, the SEC approved the amendment made to Article III of the Company’s Articles of Incorporation in regard to the change of Company’s official business address from 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.

On June 4, 2018, the Exchange has resolved to grant the Group's request to lift the trading suspension of its shares after a careful consideration of the facts and circumstances of the Group's case and a comprehensive review of the Group's disclosures and representations vis-a-vis the requirements under the Disclosure Rules. The Exchange considered, among others: (i) the Group's compliance with the disclosure requirements of the Exchange, thus addressing the grounds and reasons why the Exchange imposed the trading suspension on May 21, 2007; and (ii) the SEC' s decision setting aside the Order of Revocation on the Group's registration and permit to sell securities. The Exchange has likewise noted the Group's representations regarding its business plans, including its capital build-up program.

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 June 30, 2019, the amendment is pending for SEC approval.

2. STATUS OF OPERATION

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Parent Company will continue as a going concern. As of June 30, 2019 and 2018, the Parent Company has significant advances to Polymax Worldwide Limited (Polymax), a special purpose entity incorporated in British Virgin Islands, 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 ₱994.7million as of June 30, 2019 and 2018, respectively, which were obtained to partially finance the acquisition of the petrochemical plant, resulting from the transfer of past due loans as discussed in the next paragraph.

In 2007, the Parent Company unilaterally transferred to Polymax two significant past due liabilities totaling ₱866.7million as of December 31, 2006 that were obtained (jointly and severally with Polymax) to partially finance the acquisition of the petrochemical plant, and applied these against the Parent Company’s advances to Polymax, in order to reflect the economic substance of the acquisition and related loan transactions as discussed in Note 12.

As explained in Note 12, the remaining 20% of Polymax’s interest in the petrochemical plant is for sale.

The realization of the Parent Company's advances to Polymax (an unconsolidated special purpose entity starting in 2007) and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, depend on whether sufficient cash flows can be generated from the sale of Polymax's remaining 20% interest in NPC Alliance Corporation (NPCA) and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company.

The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. As explained in Note 18b, management's plan is to infuse additional capital to address the going concern uncertainty.

Management Plan to Address Going Concern Uncertainties

The Group still holds 20% interest in NPC Alliance Corporation as of June 30, 2019. The Board will discuss how best to proceed on this remaining investment. Recently, the petrochemical plant is undergoing further studies of how to proceed with its future operation to prevent further losses in operating the company under present market conditions. Among the options being evaluated by the majority controlling interest in NPCA is to consider the proposal of MAHEC/Polymax to take over the plant with its potential Chinese partner. The proposal of Polymax is still under consideration by Persian Gulf, the majority shareholder in NPCA.

With the planned stock rights offering, the Group will have sufficient resources to acquire certain properties North of Metro Manila and develop these properties into a proposed logistics hub for consumer goods and food items. This development proposal is in line with the thrust the Group's remaining operating subsidiary, MCLSI, to expand its foothold in the transport and delivery business.

Metro Combined Logistics Solutions, Inc. (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 Group:

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

- a) 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 – already file last May 8, 2019 and pending SEC approval;
- e) Working out a stock rights offer for take advantage of unissued shares from our authorized capital stock.

Furthermore, despite the 12 years of the suspension of PSE trading, the Group share prices on the re-opening date and thereafter have consistently been better than that of the proposed tender offer price. Henceforth, the majority shareholders are no longer committed to make a tender offer but may instead opt for other capital raising methods such as the subscription of the remaining unissued capital stock a capital call to fully subscribe the remaining unissued capital stock.

After the conduct of stock right offering, the Group will pursue its pending application with the SEC to increase its authorized capital stock to PS billion, in order to meet its projected investments. All told, the Group is expected to satisfy its cash requirements to finance its projected plans and investments in new ventures until the 4th quarter of 2019.

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

The company has a pending application with the SEC to increase its capital stock to 5 billion to be split –

60% Class A shares and 40% Class B shares at par value ₱1.00 to meet its projected investments after the tender offer.

If everything proceeds as planned, the Company is expected to satisfy its cash requirements to finance its projected plans and investments in the new ventures until the 4th quarter of 2019. Furthermore, if the lifting of the trading suspension is approved by the PSE, the Company will announce the plan for the proposed tender offer on the annual stockholders' meeting.

The Company has started to close its non-operating subsidiaries, and eliminate these from its future reporting responsibilities. The elimination will not have any significant effect on the financial statements, as reserves were all provided for these companies to be non-operational. These actions will further enhance the ability of the company to attract new investors to consider an equity infusion into the company and/or a joint venture.

Realization of Outstanding Receivables from Polymax Worldwide

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 company the direct shareholders of NPCA. The estimated present value of the 20% NPCA shares is placed at \$20million.

Manpower requirements

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

Capital Asset Acquisition

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

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 as discussed in Note 21.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Statement of Preparation

The consolidated financial statements have been prepared on the accrual basis using historical cost basis, except for equity instruments financial assets that are measured at fair value.

Functional and presentation currency

The consolidated financial statements are prepared in Philippine Peso (₱), which is the Group's functional and presentation currency. All values are rounded off to the nearest Peso, unless otherwise indicated.

Use of judgments and estimates

The preparation of consolidated financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 5.

Basis of Consolidation

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

	Percentage of Ownership	
	2019	2018
Operating subsidiaries:		
Metro Combined Logistics Solutions, Inc. (MCLSI) (formerly GAC Logistics, Inc.)	51%	51%
Non-operating subsidiaries:		
Consumer Products Distribution Services, Inc. (CPDSI)	100%	100%
FEZ-EAC Holdings, Inc. (FEZ-EAC)	100%	100%
Zuellig Distributors, Inc. (ZDI)	100%	100%
Asia Healthcare, Inc. (AHI)	60%	60%

A subsidiary is an entity in which the Parent Company has control. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company.

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

Non-controlling Interests

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

Adoption of new and revised accounting standards

New and revised Accounting Standards Effective in 2018

PFRS 9 *Financial Instruments* - the new standard contains accounting requirements for financial instruments, replacing PAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement** - Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of PFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under PAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment** - The 2014 version of PFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting** - Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition** - The requirements for the derecognition of financial assets and liabilities are carried forward from PAS 39.

The Group has adopted all the requirements of PFRS 9 *Financial Instruments* except for hedge accounting as of January 1, 2018.

Transition of PFRS 9

The effect of adopting PFRS 9 in the Group's financial statement are as follows:

Effect on the opening balance

The transition of PFRS 9 has no effect in the opening balance of fair value reserve and retained earnings.

Classification and measurement of financial assets and liabilities

PFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under PFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. PFRS 9 eliminates the previous PAS 39 categories of held to maturity, loans and receivables and available for sale.

Impairment of Financial Assets

The Group has determined that in the application of PFRS 9's impairment requirements at January 1, 2018 results that there is no additional allowance for impairment.

PFRS 15 *Revenue from Contracts with Customers* - The new standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price

- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The adoption of IFRIC 22 is not expected to have any significant impact on the Group's financial statements.

PFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) -The amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The amendment does not apply to the Group as it has no share-based payment transactions.

PFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to PFRS 4) - Amends PFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of PFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The amendment does not apply to the Group.

PAS 40 Transfers of Investment Property (Amendments) -The standard amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

These amendments are not expected to have any significant impact on the Group's financial statements since the Group has no investment property.

Annual Improvements to PFRS Standards 2014-2016 Cycle -The amendments to the following standards:

- PFRS 1 - Deletes the short-term exemptions in paragraphs E3-E7 of PFRS 1, because they have now served their intended purpose
- PFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B 10-B 16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with PFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- PAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

The amendments have no significant impact on the Group's financial statements

New and Revised Accounting Standards Effective in 2019

PFRS 16 Leases -The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

The Group is currently assessing the impact of adopting PFRS 16.

PAS 28 Long-term Interests in Associates and Joint Ventures (Amendments) - The amendment clarifies that an entity applies PFRS 9 Financial instruments to long-term interests in an associate or joint venture

that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Annual improvements to IFRS Standards 2015-2017 Cycle - The amendments to the following standards:

- PFRS 3 and PFRS 11 - The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- PAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
- PAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The amendments have no impact on the Group's financial position or performance.

IFRIC 9 Prepayment Features with Negative Compensation (Amendments) - The standard amends the existing requirements in PFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The Group is currently assessing the impact of adopting IFRIC 9.

IFRIC 23 Uncertainty over Income Tax Treatments (New) - The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Group is currently assessing the impact of adopting IFRIC 23.

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 instruments -Policy applicable before January 1, 2018

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

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

Subsequent to initial recognition, the Group classifies its financial assets and liabilities in the following categories: held-to-maturity (HTM) financial assets, available-for-sale (AFS) investments, FVPL financial

assets and loans and receivables. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

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

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

Financial assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the Group statement of comprehensive income under profit and loss.

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

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

The Group has no financial assets at FVPL as of June 30, 2019 and 2018.

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

HTM investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these

investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that is an integral part of the effective interest rate.

The Group has no HTM investments as of June 30, 2019 and 2018.

Gains and losses are recognized in the Group's statement of comprehensive income under profit and loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

AFS investments. AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are carried at fair value in the Group financial position. Changes in the fair value of such assets are reported in the equity section of the Group financial position until the investment is derecognized or the investment is determined to be impaired.

On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the Group statement of comprehensive income. Interest earned on holding AFS investments are recognized in the Group statement of comprehensive income using effective interest rate.

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

Financial liabilities

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

The Group has no derivative liabilities as of June 30, 2019 and 2018.

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

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

Included in this category are due to related parties and accounts payable and accrued expenses.

Derecognition of financial assets and liabilities

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

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

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

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is

treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of financial assets

The Group assesses at financial reporting date whether a financial asset or Group of financial assets is impaired.

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

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

AFS financial assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the Group statement of comprehensive income, is transferred from equity to the Group statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in profit.

Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification of financial instruments between debt and equity

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

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

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Group financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is not generally the case with master netting agreements and therefore, the related assets and liabilities are presented gross in the Group financial position.

Financial instruments- Policy applicable from January 1, 2018

Financial assets

Initial recognition - The financial asset or a financial liability are recognized only when the entity becomes party to the contractual provisions of the instrument.

A financial asset (except trade receivable without a significant financing component) or financial liability are initially measured at fair value plus, in the case not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and measurement - The financial assets are classified based on the entity's business model for managing the assets and the contractual cash flows characteristics, and these are measured as follows:

Amortized cost - a financial asset is measured at amortized cost if both of the following conditions are met: (a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and; (b) 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.

Fair value through other comprehensive income (FVOCI) - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value through profit or loss (FVTPL) - any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The foregoing categories of financial instruments are more fully described below.

Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. As of June 30, 2019 and 2018, the Group has no financial assets at FVTPL.

Financial assets at amortized cost - These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. Cash, trade and other receivables and due to related parties are included in this category.

Debt investments at FVOCI - These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are

recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification and Measurement

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

As of June 30, 2019 and 2018, the Group has no financial liabilities classified under FVTPL.

The other financial liabilities of the Group as of June 30, 2019 and 2018, includes accounts payable and accrued expenses and due to related parties.

Derecognition

Financial assets - The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities - The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred, or liabilities assumed) is recognized in profit or loss.

Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Impairment

Impairment of financial assets are recognized in stages as follows:

- Stage 1 - as soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (without deduction for expected credit losses).
- Stage 2 - if the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognized in profit or loss. The calculation of interest revenue is the same as for Stage 1.
- Stage 3 - if the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortized cost (the gross carrying amount

less the loss allowance). Financial assets in this stage will generally be assessed individually. Lifetime expected credit losses are recognized on these financial assets.

Cash

Cash includes cash on hand and in banks.

Trade and other receivables

Trade and other receivables are stated initially at their nominal values and subsequently recognized at realizable values, net of settlement collections, and 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

Other assets are recognized when the Group expects to receive future economic benefit from them and the amount can be measured reliably. Other assets are classified in the 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

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:

<u>Particulars</u>	<u>Number of Years</u>
Leasehold improvements	5 years or lease term, whichever is shorter
Machinery and equipment	3 to 10
Office furniture, fixtures and equipment	2 to 5

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

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

Investment in subsidiary

A subsidiary is an entity, including an unincorporated entity such as a partnership, which is controlled by the Group. The Group has control over an entity if it has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investment in subsidiary in the Group financial statements is carried at cost, less any impairment in the value of the individual investment.

Intangible assets

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

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

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

Impairment of non-financial asset with definite useful life

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Accounts payable and accrued expenses

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.

Other current payables

Other current payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and other third-party entities. Other current payables are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle of the business if longer); otherwise, they are presented as noncurrent liabilities.

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 is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

- 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

Cost and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Cost and expenses are recognized in profit or loss on the basis of direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset

Cost and expenses in the statement of income are presented using the function of expense method

Operating leases

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

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

Retirement benefits cost

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability or asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of all related pension obligations.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The cumulative gains or losses arising from the remeasurements are now shown as a separate line item in the statement of financial position as "remeasurement loss on retirement benefits obligation".

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.

Foreign currency transactions and translations

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

Income tax

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

Current tax

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

Deferred tax

Deferred income tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of asset and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefit of the net operating loss carryover (NOLCO). The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carry forward benefit of unused NOLCO can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other

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

Earnings per share

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

Segments

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

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 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 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 financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the Group financial statements when material.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Judgments

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

Consolidation of SPE

An entity is considered a SPE and included in consolidation even in cases when the 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,

starting in 2007, the SPE was no longer consolidated because it had ceased operating as a going concern.

Operating Lease Commitments - Group as Lessee

The Group has various operating lease agreements for their respective offices and warehouses. The Group has determined that the risks and rewards of ownership of the underlying properties have been retained by their respective lessors. Accordingly, these leases are accounted for as operating leases (see Note 22).

Contingencies

The Group is currently involved in various legal proceedings, which are normal to its business as discussed in Note 24. The Group's estimate of the probable costs for these proceedings and resolution of these claims have been developed in consultation with outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group does not believe that these legal proceedings will have a material adverse effect on its consolidated financial statements. It is possible, however, that changes in estimates relating to these proceedings may materially affect results of operations.

Estimates and Assumptions

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

Estimating Allowance for Probable Losses

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

The receivables amounted to ₱126.20 million and ₱120.00 million as of March 31, 2019 and 2018, respectively, which is net of allowance for doubtful accounts of ₱148.13 million and ₱146.62 million as of June 30, 2019 and 2018, respectively (see Note 10).

The carrying amount of other current assets amounted to ₱19.30 million and ₱23.81 million as of June 30, 2019 and 2018, respectively as discussed in Note 6. Allowance on probable losses, mainly pertaining to creditable withholding and input taxes, amounted to ₱12.87 million and ₱12.87 million as of June 30, 2019 and 2018, respectively as shown also in Note 11.

Advances to Polymax (under asset held for sale) amounting to ₱367.42 million and ₱370.45 million as of June 30, 2019 and 2018 respectively, constitute 60% and 61% of the Group's total assets at June 30, 2019 and 2018, 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 12.

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 2019 and 2018.

In 2016, MCLSI's management assessed that there is a significant change from the previous estimates and estimated useful life of its intangible assets to one year, since the assets will no longer provide future economic benefit to the Group as disclosed in Note 15.

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 June 30, 2019 and 2018. As of June 30, 2019 and 2018, property and equipment, net of accumulated depreciation and amortization, amounted to ₱8.87 million and ₱4.29 million, respectively, as shown in Note 9 and total depreciation and amortization charged to operations amounted to ₱1.59 million and ₱0.97 million, respectively, for periods ending June 30, 2019 and 2018.

Fair Value of Financial Assets and Liabilities

The Group carries certain financial assets and financial liabilities at fair value, which requires use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted market prices and interest rates). In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. Any change in fair value of these financial assets and liabilities would affect profit or loss and equity. The fair value of financial assets and liabilities are enumerated in Note 8.

Impairment of AFS Investments

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

Deferred Tax Assets

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

The recognized net deferred tax assets amounted to ₱4.62 million and ₱4.50 million as of June 30, 2019 and 2018, respectively.

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 26 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 ₱6.27 million and ₱3.78 million as of June 30, 2019 and 2018, respectively.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of cash, equity investments, due from (to) related parties and long-term debt. The main purpose of these financial instruments is to finance the Group's operations. The Group's other financial assets and liabilities include receivables, refundable deposits and accounts payable and accrued expenses, which arise directly from its operations.

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term. As of June 30, 2019 and 2018, the Group has minimal exposure to interest rate risk since the interest rates are fixed up to the date of maturity.

Credit Risk

It is the Group's policy to require all concerned related and/or third party to comply and undergo a credit verification process with emphasis on their capacity, character and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized.

The Group deals only with legitimate parties. As to other financial assets of the Group like cash, the credit risk arises only in case of default of the counterparty and the maximum exposure is limited to the carrying amount of the instruments.

- a. Financial information on the Group's maximum exposure to credit risk as of June 30, 2019 and 2018, without considering the effects of collateral and other risk mitigation techniques are presented below:

	2019	2018
Cash and cash equivalents	₱51,967,205	₱49,525,158
Receivables	126,202,234	120,020,946
Refundable deposits	4,157,133	3,777,033
	₱182,326,572	₱173,323,136

- b. Credit quality per class of financial assets.

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

Financial Assets – Equity investments

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 company. 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 table below present the credit quality of financial assets and an analysis of past due accounts as of June 30:

	2019			Total
	High Grade	Standard Grade	Past due but not impaired	
Financial Assets at amortized cost				
Cash excluding cash on hand	₱51,789,205	₱-	₱-	₱51,789,205
Trade Receivables	-	84,722,476	-	84,722,476
Other Receivables	-	-	40,435,817	40,435,817
Subtotal	51,789,205	84,722,476	40,435,817	176,947,497
Equity instruments	24,646,285	-	-	24,646,285
Refundable Deposits	8,552,354	-	-	8,552,354
Subtotal	33,198,639	-	-	33,198,639
Total	₱84,987,843	₱84,722,476	₱40,435,817	₱210,146,136

	2018			Total
	High Grade	Standard Grade	Past due but not impaired	
Financial Assets at amortized cost				
Cash excluding cash on hand	₱49,302,606	₱-	₱-	₱49,302,606
Trade Receivables	-	77,292,918	-	77,292,918
Other Receivables	-	-	40,167,846	40,167,846
Subtotal	49,302,606	77,292,918	40,167,846	166,763,370
Equity instruments	26,669,885	-	-	26,669,885
Refundable Deposits	7,729,690	-	-	7,729,690
Subtotal	34,399,575	-	-	34,399,575
Total	₱83,702,182	₱77,292,918	₱40,167,846	₱201,162,946

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

Liquidity Risk

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

The table below shows the maturity profile of the financial assets and liabilities, based on its internal methodology that manages liquidity based on contractual undiscounted cash flows as of June 30:

	2019			Total
	On Demand	Within 1 Year	More than 1 Year	
Cash and cash equivalents	₱51,967,205	₱-	₱-	₱51,967,205
Receivables	-	126,202,234	-	126,202,234
Refundable deposits	-	249,218	8,303,135	8,552,353
	51,967,205	126,451,452	8,303,135	186,721,792
Equity Instruments	-	-	24,646,285	24,646,285
Total	51,967,205	126,451,452	32,949,420	211,368,077
Due to related parties	-	58,262,046	-	58,262,046
Accrued expenses and other current liabilities	-	280,807,029	123,438,803	404,245,832
Net Position	₱51,967,205	(₱212,617,623)	(₱90,489,383)	(₱251,139,801)

	2018			
	On Demand	Within 1 Year	More than 1 Year	Total
Cash and cash equivalents	₱49,525,158	₱-	₱-	₱49,525,158
Receivables	-	120,020,946	-	120,020,946
Refundable deposits	-	760,131	6,969,559	7,729,690
	49,525,158	120,781,077	6,969,559	177,275,794
Equity Instruments	-	-	26,669,885	26,669,885
Total	49,525,158	120,781,077	33,639,444	203,945,679
Due to related parties	-	61,694,306	-	61,694,306
Accrued expenses and other current liabilities	-	264,129,017	123,438,803	387,567,820
Net Position	₱49,525,158	(₱205,042,246)	(₱89,799,359)	(₱245,316,447)

7. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the ability of the entities in the Group to continue as a going concern and maximize shareholder value by maintaining the appropriate capital structure that supports the business objective of the entities. The BOD of the Group's entities has overall responsibility for monitoring capital in proportion to risk. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions, by issuing new shares and making adjustments on payments to related parties, existing debts and dividends to shareholders.

The Group is not subject to externally-imposed capital requirements.

8. FINANCIAL ASSETS AND LIABILITIES

The following table summarizes the carrying values of the Groups financial assets and liabilities as of June 30:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash	₱51,967,205	₱51,967,205	₱49,525,158	₱49,525,158
Receivables	126,202,234	126,202,234	120,020,945	120,020,945
Equity Investments	24,646,285	24,646,285	26,669,885	26,669,885
Refundable deposits	8,552,353	8,552,353	7,729,690	7,729,690
Total	211,368,077	211,368,077	203,945,678	203,945,678
Financial Liabilities				
Accounts payable and Accrued expense	404,245,832	404,245,832	387,567,820	387,567,820
Due to related parties	58,262,046	58,262,046	61,694,306	61,694,306
Total	₱462,507,878	₱462,507,878	₱449,262,126	₱449,262,126

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, accrued expenses, due to related parties and current portion of long-term debt approximate their fair values.

Equity investments

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

Long-term debt

The carrying value of the noncurrent portion of long-term debt approximates the fair value, which is

determined to be the present value of future cash flows using the prevailing market rate as the discount rate.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

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

As of June 30, 2019 and 2018, the Group does not have financial assets valued using Level 2 inputs. Also, there were no transfers made between each level.

9. CASH

Details of cash are as follows as of June 30:

	2019	2018
Cash on hand	₱178,000	₱222,551
Cash in banks	51,789,205	49,302,607
	₱51,967,205	₱49,525,158

Cash in banks earn interest at the respective bank deposit rates. Interest income from banks amounted to ₱72,458 and ₱12,454 in 2019 and 2018, respectively.

10. TRADE AND OTHER RECEIVABLES

Details of receivables are as follows as of June 30:

	2019	2018
Notes	₱143,865,021	₱143,865,021
Trade	84,722,476	77,292,918
Due from affiliates	5,308,907	5,312,305
Others	40,435,817	40,167,847
	274,332,220	266,638,091
Less allowance for doubtful accounts	(148,129,986)	(146,617,145)
	₱126,202,234	₱120,020,946

The notes receivable bear interest at 3.5% per annum and are payable in 365 days on demand, subject to renewal upon mutual consent. Notes receivable are considered impaired and covered with allowance for probable losses; accordingly, no interest income was recognized in 2019 and 2018.

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

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

Other receivables pertain to advances subject for liquidation.

11. OTHER CURRENT ASSETS, NET

Details are as follows as of June 30:

	2019	2018
Creditable withholding taxes	₱9,300,295	₱13,651,324
Input taxes	7,093,681	14,100,728
Refundable deposits	4,395,221	3,352,326
Prepayments and others	11,400,778	5,587,108

	32,189,974	36,691,486
Less: allowance for probable losses	12,886,123	12,886,123
	₱19,303,851	₱23,805,363

12. ASSET HELD FOR SALE

Asset held for sale amounting to ₱367,416,621 and ₱370,450,223 as of June 30, 2019 and 2018, respectively, which constitutes 60% and 61% of the Company's total assets as of June 30, 2019 and 2018, represents advances to Polymax, the Parent Company's special purpose entity incorporated in British Virgin Islands solely for the purpose of acquiring the petrochemical plant of NPCA as discussed in Note 2.

On March 18 and September 20, 2006, Polymax's interest in NPCA of 40% and 20%, respectively, was sold. Thereafter, management decided to discontinue operations and ceased operating as a going concern. The remaining 40% interest of Polymax in NPCA, which is for sale, is valued at ₱900 million, which is the estimated recoverable amount from the sale of the investment. The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities related to the asset for sale, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 20% interest in NPCA, which is for sale. In this regard and to ensure the recoverability of the Parent Company's advances to Polymax, the Parent Company's major stockholders issued a letter of comfort in favor of the Parent Company on September 30, 2014.

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

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

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As of June 30, the account consists of:

	2019	2018
At acquisition cost	₱16,270,963	₱16,270,963
Cumulative fair value gain (loss) – in equity	6,375,322	10,398,922
Total	₱22,646,285	₱26,669,885

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

For the latter part of the year 2017, the Parent company made an investment with Taguig Lake City Development Corporation, a non-listed entity, amounting to ₱12,500,000 whose primary activity is to engage in real estate development.

The movements in net unrealized gain or loss on equity instruments financial assets are as follows:

	2019	2018
Balance at beginning of year	₱6,375,322	₱10,398,922
Fair value gain (loss)	-	-
Total	₱6,375,322	₱10,398,922

The net unrealized gain on equity instruments financial assets are deferred and presented separately as fair value reserve under the equity section of the consolidated financial position.

14. PROPERTY AND EQUIPMENT, NET

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

June 30, 2019	Leasehold Improvements	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Total
Cost				
Balances at beginning of year	₱2,368,234	₱27,637,455	₱15,852,250	₱45,857,939
Additions/(Disposals)/Adjustments	159,428	(137,806)	937,715	959,338
Balances at end of year	2,527,662	27,499,649	16,789,965	46,817,277
Accumulated Depreciation				
Balances at beginning of year	1,811,245	23,038,314	14,287,540	39,137,099
Additions/(Disposals)/Adjustments	-	(2,529,331)	-	(2,529,331)
Depreciation	138,551	897,668	303,300	1,339,519
Balances at end of 2nd quarter	1,949,796	21,406,651	14,590,840	37,947,287
Net book value	₱577,867	₱6,092,998	₱2,199,125	₱8,869,990

June 30, 2018	Leasehold Improvements	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Total
Cost				
Balances at beginning of year	₱2,282,149	₱24,461,743	₱14,675,944	₱41,419,836
Additions	37,090	48,661	749,877	835,628
Balances at end of year	2,319,239	24,510,404	15,425,821	42,255,464
Accumulated Depreciation				
Balances at beginning of year	1,513,473	21,708,259	13,774,080	36,995,812
Depreciation	183,410	718,784	64,406	966,600
Balances at end of 2nd quarter	1,696,883	22,427,043	13,838,486	37,962,412
Net book value	₱622,356	₱2,083,361	₱1,587,335	₱4,293,052

15. OTHER NONCURRENT ASSETS

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

	2019	2018
Refundable deposits – non-current portion	₱8,303,135	₱6,969,559
Intangible assets	783,378	1,029,175
Total	₱9,086,513	₱7,998,734

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

The carrying amount of intangible assets as of June 30, 2019 is as follows:

Particulars	Beginning Balances	Additions	Ending Balances
Cost:			
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
Total	4,295,691	-	4,295,691
Accumulated Amortization:			
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	794,155	248,113	1,042,268
Total	3,264,200	248,113	3,512,313
Carrying amount	₱1,031,491	(₱248,113)	₱783,378

The carrying amount of intangible assets as of June 30, 2018 is as follows:

<u>Particulars</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Ending Balances</u>
Cost:			
Short messaging	P135,135	P–	P135,135
Warehouse management system	1,309,910	–	1,309,910
Caerus accounting system	1,025,000	–	1,025,000
SAP Business one	1,242,446	422,000	1,664,446
Total	3,712,491	422,000	4,134,491
Accumulated Amortization:			
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	381,615	253,656	635,271
Total	2,851,660	253,656	3,105,316
Carrying amount	P860,831	P168,344	P1,029,175

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

In 2016, the management decided to fully amortize the Caerus accounting system as the intangible assets is no longer functional.

16. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2019	2018
Current Portion		
Trade Payables	P67,812,130	P44,154,521
Accrued Expenses	175,267,430	186,611,598
Other current liabilities	37,727,469	33,362,898
Total	280,807,029	264,129,017
Non-Current Portion		
Accrued Expenses	123,438,803	123,438,803
Total	P404,245,832	P387,567,820

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

In 2017, the Group reversed accruals made which pertains to director's fee and share in operating expenses amounting to P8,408,500 for which assessment disclosed remote probability of settlement. As a result, an adjustment to the prior year's operation was made, which pertains to the restatement of the expense relative to the liability recognized.

During 2018, the Group reclassified to non-current portion the accruals made which pertains to management fee, reserve for contingency BIR and accrued interest – Unimark amounting to P 39,685,406, P83,753,397 and P52,876,888, 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.

17. DUE TO RELATED PARTIES

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

	2019	2018
Acesite Phils Hotel Corp	₱5,627,202	₱5,627,202
The Wellex Group, Inc	52,877,388	52,877,388
Others	(242,544)	3,189,719
Total	₱58,262,046	₱61,694,309

The 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.

18. CAPITAL STOCK

a. The Group's capital stock as of June 30, 2019 and 2018 consists of the following common shares:

Class "A" – 1 par value		
Authorized – 720,000,000 shares		
Issued and Outstanding – 183,673,470 shares		
Number of equity holders – 619		₱183,673,470
Class "B" – 1 par value		
Authorized – 480,000,000 shares		
Issued and Outstanding – 122,448,979 shares		
Number of equity holders – 393		122,448,979
		₱306,122,449

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

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 June 30, 2019, the amendment is pending for SEC approval.

A 2,500 Class A shares from a stockholder, Gregorio Saguinsin, were inherited by his daughter Margaret Saquinsin-Clausen. Margaret Saquinsin-Clausen was a natural born Filipino citizen who got married to an American citizen and eventually acquired American citizenship. As a result, is now disqualified to own Class A shares. The parent company, Metro Alliance Holdings & Equities Corp., under its Articles of Incorporation is authorized/empowered to purchase said 2,500 shares and transfer it under the name of the company by tendering/paying to Margaret Saquinsin-Clausen the amount corresponding to the market value of the shares the day before acquisition. The parent company, through its board of Directors, in its special meeting on April 11, 2019, approved said acquisition, if the stockholder opted to sell the said shares. As of June 30, 2019, the parent company is exerting its effort to contact Margaret Saguinsin-Clausen about the 2,500 Class A shares in order to resolve the matter with the company's stock transfer agent.

b. On July 25, 2003, the Group's stockholders approved the increase in authorized capital stock from ₱ 1.2 billion consisting of 1.2 billion shares to ₱5.0 billion consisting of 5.0 billion shares, both with par value of ₱1.0 per share.

However the increase was held in abeyance because of the dispute in the acquisition of the Petrochemical Project, which was settled in 2007 (see Note 2).

19. COST OF SERVICES

Details of this account are shown below for the second quarter June 30:

	2019	2018
Personnel costs	₱23,537,763	₱26,144,354
Rent and utilities	12,820,417	9,222,941
Transportation and Travel	24,006,565	15,272,684
Outside services	427,311	417,500
Security services	1,366,272	-
Communication and office supplies	(6,856)	147,942
Depreciation and Amortization	-	-
Repairs and maintenance	134,198	1,689,802
Others	2,790,392	3,914,449
	₱65,076,063	₱56,809,672

20. GENERAL AND ADMINISTRATIVE EXPENSE

Details of this account are shown below for the second quarter June 30:

	2019	2018
Personnel costs	₱4,704,788	₱3,865,784
Communication and office supplies	582,362	605,350
Taxes and Licenses	342,928	452,719
Security Services	-	1,253,966
Professional Fees	372,839	695,225
Rent and Utilities	337,137	395,403
Entertainment	85,743	477,948
Amortization of Intangible Assets	124,056	88,856
Insurance	7,344	97,814
Depreciation	665,962	(120,522)
Transportation and Travel	20,090	86,070
Others	819,584	339,797
	₱8,062,832	₱8,238,410

21. RELATED PARTY TRANSACTIONS

a. Due from/to related parties

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

b. Payables for shared operating expenses

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

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

Compensation of Key Management Personnel

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

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.

The related amounts applicable to the Company's transactions with related parties are as follows:

Particulars	Terms & Conditions	Transactions		Outstanding Balance	
		2019	2018	2019	2018
Due from Related Parties					
The Wellex Group, Inc	Non-Interest bearing and unsecured borrowing; Expected to be settled in cash	P-	P-	P5,258,610	P5,262,008
Others	Non-Interest bearing and unsecured borrowing; Expected to be settled in cash	-	-	50,297	50,297
Total (Note 11)		-	-	5,308,907	5,312,305

Advances (Asset held for sale)

Polymax (Note 13)	Represents 20% share investment in NPCA	(P1,403,317)	(P1,630,285)	P367,416,621	P370,450,223
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Particulars	Terms & Conditions	Transactions		Outstanding Balance	
		2019	2018	2019	2018
Due to related parties					
Acesite (Phils) Hotel Corp	Non-Interest bearing and unsecured borrowing; Expected to be settled in cash	P-	P-	P5,627,202	P5,627,202
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	-	-	52,877,388	52,877,388
Others	Non-Interest bearing and unsecured borrowing; Expected to be settled in cash	(690,022)	(2,160,745)	(242,544)	3,189,719
Total (Note 17)		(P690,022)	(P2,160,745)	P58,262,046	P61,694,309

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

22. LEASE AGREEMENTS

As of June 30, 2019, 2018 and 2017, the Parent Company and MCLSI, operating subsidiary, has several agreements with various entities for lease of commercial space and offices.

Office space

a) The Parent Company entered into an operating lease agreement with The Wellex Group, Inc. for a business space in the 35th floor of One Corporate Centre, Dona Julia Vargas cor. Meralco Ave., Ortigas Center Pasig City. The term of the lease is from May 1, 2014 until April 30, 2016 and shall be renewable for another period of two (2) years with adjustments in the rental rates as agreed by the parties. Monthly rental for the leased premises amounts to P21,000, exclusive of VAT.

In May 2016, the Parent Company renewed its lease contract for another two (2) years with no changes in the terms of the agreement.

In May 2018, the Parent Company renewed its lease contract for another two (2) years with no changes in the terms of the agreement.

b) During the year, MCLSI renewed the lease contract for its office space. The term of the contract is (1) year commencing of February 1, 2017 and ending on January 31, 2018, renewable subject to the terms and conditions as may be mutually agreed upon. Monthly rental payments amounted to P71,150.

Warehouses

- a) MCLSI entered in lease contract for a warehouse and office building located at warehouse #6 along E. Rodriguez St., Tunasan, Muntinlupa City. The lease term is for a period of two (2) years commencing on April 14, 2014 until April 14, 2016 with monthly rental payments of ₱233,835. The

contract was renewed on February 12, 2016 for another 2 years commencing on April 15, 2016 and expiring on April 14, 2018 with a new monthly rental amounted to ₱257,219. Rental deposits paid amounted to ₱771,655. equivalent to three (3) months rental to answer for any of its obligations and to be refunded upon the expiration of lease term after the termination of the contact.

- b) MCLSI entered into new lease contracts for a warehouse, and parking and open space located at 21st St Golden Mile Business Park, Brgy, Maduya Carmona, Cavite. The lease term is for a period of three (3) years commencing on November 3, 2015 until November 2, 2018 with monthly rental payments of ₱330,691. Rental deposits amounted to ₱981,764 equivalent to three (3) months rental to answer for any of its obligation and to be refunded upon the expiration of the contract.
- c) MCLSI entered into another lease contract for warehouse, and parking and open space located at 21st Golden Mile Business Park, Brgy. Maduya Carmona, Cavite. The lease term is also for three (3) years commencing on October 12, 2015 until October 11, 2018 with monthly rental payments of ₱350,162. Rental deposits amounted to ₱927,171 equivalent to three (3) months rental to answer for any of its obligation and also to be refunded upon the termination of the lease contract.
- d) MCLSI entered into a new lease contract for a warehouse, and parking and open space located at 21st St Golden Mile Business Park, Brgy. Maduya Carmona, Cavite with a covered area of 1,965 sqm. The lease term is for a period of three (3) years commencing on October 16, 2016 and automatically terminating on October 15, 2019 with monthly rental payments of ₱336,408. A 5% escalation will start on the third year. Rental deposits amounted to ₱943,200 and to be refunded upon the expiration of the contract.
- e) MCLSI entered into a new lease contract for a warehouse, and parking and open space located at 21st St. Golden Mile Business Park, Brgy. Maduya Carmona, Cavite with a covered area of 1,877sqm. The lease term is for a period of three (3) years commencing on November 7, 2016 and automatically terminating on November 6, 2019 with monthly rental payments of P321,342. A 5% escalation will start on the third year. Rental deposits paid amounted to ₱900,960 to answer for any of its obligation and to be refunded upon the expiration of the contract.
- f) MCLSI entered into a new lease contract for a warehouse, and parking and open space located at Block 8 Lot 10, Golden Mile Business Park, Brgy. Maduya Carmona, Cavite with a covered area of 2,522 sqm and open area of 1,045 sqm. The lease term is for a period of three (3) years commencing on March 1, 2016 and automatically terminating on February 29, 2019 with monthly rental payments of ₱390,611 for the first two years and ₱411,170 for the third year. Rental deposits paid amounted to ₱1,046,280 to answer for any of its obligation and to be refunded upon the expiration of the contract.
- g) MCLSI entered into a new lease contract for a warehouse, and parking and open space located at Elisco Street, Brgy. Kalawan, Pasig City, with a covered area of 2,460 sqm and open area of 1,196 sqm. The lease term is for a period of three (3) years commencing on November 26, 2016 and expiring on the midnight of November 25, 2019 with monthly rental payments of ₱511,460 with an escalation of 7% starting on the second year. Upon execution of the contract, the Company had paid three months' advance rental amounted to ₱1,534,380 and another two months' security deposit amounted to ₱956,000.

23. 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.

24. OTHER MATTERS

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

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

On April 26, 2006, the Company filed a Petition for Review before the CTA en banc. On March 7, 2007, the CTA en banc dismissed the Petition for lack of merit. The CTA en banc affirmed the CTA's decision granting the Motion for Issuance of Writ of Execution filed by the Commissioner of Internal Revenue.

As of June 30, 2019, the Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable. Management believes, however, that the ultimate outcome of the case will not have a material effect on the consolidated financial statements.

B. On September 14, 2005, the Company and Philippine Estate Corporation (PEC) filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, and Annulment in Decrease in Interest rates, Service Charge, Penalties and Notice of Sheriffs Sale, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction. The case stemmed from 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 PEC securing ₱280 million loans obtained by MAHEC and PEC last December 2003.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction (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 ₱165.8million. When MAHEC and PEC failed to redeem, Philtrust consolidated title and Tagaytay registry issued new TCTs cancelling PEC's TCT. On October 10, 2011, MAHEC filed Notice Lis Pendens vs. four (4) new TCTs of Philtrust.

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

The Company was able to get the formal trial started and on-going. The Company's most important move was the presentation of a very competent real estate appraiser, realtor, Cesar Santos, who was able to successfully defend in court his ₱811.6million 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 cross0examination wherein they obtained many damaging admissions against the Bank. Plaintiff's counsels cross-examination will resume at trial hearing set for 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. Atty. Rex Sandoval, MAHEC's representative, has likewise attended the previous hearings dated February 22 and March 22 of 2018.

As of June 30, 2019, the case is pending resolution with the Regional Court of Tagaytay, Branch 18 SCA# TG-05-2519.

- C. 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 ₱350million 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 company with the same RTC. In 2013, Company'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, Company's legal counsel dropped Zen Sen Realty as an unnecessary defendant, after which DECISION was rendered vs. PVB on January 9, 2015, declaring the ₱550M loan (total loan of MAHEC, Polymax, Wellex and other affiliated companies) as fully paid, and even over-paid; discharging all the mortgages, and voiding the 2012 sale made to Zen Sen. PVB was ordered to refund to plaintiffs the ₱3.25 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 Company's legal counsel questioned as defective, but the RTC ruled against the company in its May 12, 2015 Order. The consolidated case is now on appeal in the Court of Appeals as CA-GR CV #105323. Appellant-defendant Bank filed last December 2016 its Appellant's Brief. The Company'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.

On February 28 and its affirmation through a Resolution on July 2, 2018, both Metro Alliance and PVB filed their respective Petition for Review in relation to the Decision of the Court of Appeal in the above referenced case. In GR No. 240513, PVB filed a Manifestation that there is another petition (GR No. 240595) pending with the Supreme Court. Considering that undersigned is collaborating counsel, copies of orders and other rulings are being sent to the principal counsel.

As of June 30, 2019 there are now a consolidated petitions: a) the petition for review on Certiorari filed by MAHEC, Polymax Worldwide Limited (Polymax), and Wellex, docketed as G.R. No. 240495, and b) the petition for review filed by Philippine Veterans Bank (PVB), docketed as G.R. No. 240513. Both petitions assail the rulings of the Court of Appeals in C.A. G.R. CV No. 105323. MAHEC, et al. basically argue the following: a) the Court of Appeals should have dismissed outright PVB's Notice of Appeal for failure to state the material dates showing the timeliness of said appeal; b) the Court of Appeals exceeded its jurisdiction in motu proprio ruling that the interest rate of 12%, instead of 6%, applies to this case; and c) the Court of Appeals disregarded the well-settled jurisprudence that the courts have the discretion and authority to equitably reduce interest rates, as reason and equity demand, when the stipulated interest rate are void. The case is still pending as of this date.

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

* * *

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

	Jun-31 2019	Jun-31 2018
Profitability ratios:		
Return on assets	1.48%	1.41%
Return on equity	6.46%	5.58%
Net profit margin	6.16%	6.39%
Solvency and liquidity ratios:		
Current ratio	58.24%	58.76%
Debt to equity ratio	336.81%	296.06%
Quick Ratio	58.24%	37.84%
Financial leverage ratio:		
Asset to equity ratio	436.81%	396.06%
Debt to asset ratio	77.11%	74.75%
Interest rate coverage ratio	NIL	NIL

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**RECEIVABLES AGING SUMMARY****As of June 30, 2019**

	Current	0 - 30	31 - 60	61 - 90	91 - 120	121+	Total
Notes receivable	₱143,865,021	₱-	₱-	₱-	₱-	₱-	₱143,865,021
Trade receivable	25,312,628	25,044,246	11,670,943	7,500,366	2,125,154	13,069,138	84,722,476
Due from affiliates	5,308,907						5,308,907
Others	40,435,817						40,435,817
Subtotal	214,922,372	25,044,246	11,670,943	7,500,366	2,125,154	13,069,138	274,332,220
Allowance for doubtful accounts	(148,129,986)						(148,129,986)
	₱66,792,386	₱25,044,246	₱11,670,943	₱7,500,366	₱2,125,154	₱13,069,138	₱126,202,234

SIGNATURE

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

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig.

Registrant: RENATO B. MAGADIA
Title: Chairman of the Board and President
Signature: _____

Registrant: ATTY. NESTOR S. ROMULO
Title: Corporate Secretary
Signature: _____

Registrant: JAMES B. PALIT-ANG
Title: Corporate Treasurer
Signature: _____

Dated _____

PRESCRIBED AND SWORN to before me this JUL 30, 2019 day of _____, 2019 in PASIG CITY Affiant (s) exhibiting to me their Tax Identification No. issued by the Bureau of Internal Revenue, as follows:

AFFIANTS	Tax Identification No.
1. Renato B. Magadia	100-842-390-000
2. Atty. Nestor S. Romulo	107-200-723-000
3. James B. Palit-Ang	151-871-333-000

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Series of 2019

L. Bernardo
ATTY. LIEZEL C. BERNARDO
Notary Public for the Cities of Pasig &
San Juan & Municipality of Paleros
Until 12.31.20 (Appl. No. 174 (2019-2020))
35th Floor One Corporate Center
Doña Julia Vargas corner Menloco
Ave., Ortigas Center, Pasig City, Metro Manila
Rol No. 98716/SP No. 000009/01.09.18/Bulacan
MCLE Compliance No. VI-0018219/02.06.19/Pasig City
PTR No. 8035464/01.07.18/Marikina City