SEC Number 184228
File Number ______

MRC ALLIED INDUSTRIES, INC.
(Company's Full Name)

New Cebu Township One (NCTO), Barangay Cantao-an, Naga Cebu
(Company's Address)

(032) 272-6572/272-6568
(Telephone Number)

March 31, 2006
(Quarter Ending)

SEC Form 17-Q
(Form Type)

______
Amendment Designation (If Applicable)

March 31, 2006
(Period Ended Date)

______
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2006**

2. SEC Identification Number **184228** 3. BIR Tax Identification No. **049-000-275-291**

4. Exact name of issuer as specified in its charter **MRC ALLIED INDUSTRIES, INC.**

5. **Philippines**
(Province, country or other jurisdiction of incorporation or organization)

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **New Cebu Township One (NCTO), Cantao-an, Naga, Cebu** **6037**
Address of issuer's principal office Postal Code

8. **(032) 272-6572/272-6568**
Issuer's telephone number, including area code

9. **n/a**
Former name, former address, former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 & 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	**500,000,000 shares**

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

Yes **[X]** No **[ ]**

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

Philippine Stock Exchange **Common Stock**

12. Check 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 12 months (or for such shorter period that the registrant was required to file such reports);

Yes **[X]** No **[ ]**

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

Yes **[X]** No **[ ]**

MRC ALLIED INDUSTRIES, INC.
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SEC FORM 17-Q

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

See accompanying Index to Financial Statements and Supplementary Schedules

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

First quarters of 2006 and 2005

The interim financial statements for the first quarter of 2006, the Company and its subsidiary incurred net losses of ₱8.3 million and ₱7.8 million for the three months ended March 31, 2006 and 2005, and have a consolidated deficit of ₱732.4 million and ₱724.1 million as of March 31, 2006 and December 31, 2005 respectively. Because of financial difficulties, the Company was unable to meet its principal and interest amortization and has substantially reduced its development activities. Net losses for the quarters 2006 and 2005 was mainly interest expenses on bank loans, resulting to an increase of accounts payable and other liabilities from ₱363.1 million to ₱391.2 million. Operating expenses increased from ₱2.3 million to ₱2.5 million due to payment of annual maintenance fees. Accounts Receivable increased from ₱1.2 million to ₱1.5 thousand due to non payment of association dues of one locator.

The Company still provides transportation services and distribution of water to the locators and nearby residents. Income derived from is used to cover some daily expenses.

The Corporation reports that no material events and uncertainties known to management that would address the past and would have an impact of future operations.

The Company's financial ratios for 2006 and 2005 are as follows:

	2006		2005	
Ratio	Equation	Ratios	Equation	Ratios
Debt Equity Ratio	565,351,353 / 60,066,078	9.42:1	556,761,738 / 68,388,297	8.14:1
Stockholders' Equity Ratio	60,066,078 / 625,417,430	0.096:1	68,388,297 / 625,150,035	0.11:1
Rate of Return Equity	(8,322,219) / 60,066,078	(13.9%)	(35,186,228) / 68,388,297	(51.5%)
Rate of Return on Assets	(8,322,219) / 625,417,430	(1.4%)	(35,186,228) / 625,150,035	(05.7%)

SIGNATURES

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

MRC ALLIED INDUSTRIES, INC.
BY:

BENJAMIN M. BITANGA
President & Chairman of the Board
June 01, 2006

BERNARD B. RABANZO
Accounting Assistant
June 01, 2006

MRC ALLIED INDUSTRIES, INC.
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-Q, ITEM 1

* These schedules, which are required by Part III of SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's financial statements or the notes to financial statements.

MRC ALLIED INDUSTRIES, INC. And Subsidiary

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006 AND DECEMBER 31, 2005 AND
COMPARATIVE THREE-MONTH (JANUARY TO MARCH)
IN THE PERIODS ENDED MARCH 2006 AND 2005

MRC ALLIED INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Cash	**₱65,764**	₱71,850
Accounts Receivable - net (Notes 3 and 10)	**1,598,308**	1,519,635
Due from Related Parties - net of allowance for doubtful accounts of ₱161,082,889 in 2005 and ₱156,139,288 in 2004 (Note 10)	**–**	–
Real Estate Projects - net (Notes 1, 5 and 8)	**620,699,760**	620,699,760
Property and Equipment - net (Note 6)	**2,852,035**	2,858,790
Other Assets - net (Note 7)	**201,563**	–
	₱625,417,430	₱625,150,035
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Bank loans (Notes 1, 5 and 8)	**₱145,021,508**	₱145,021,508
Accounts payable and other liabilities (Notes 8, 9 and 10)	**391,231,259**	382,641,644
Estimated liability for land development	**23,616,336**	23,616,336
Due to a related party (Note 10)	**916,688**	916,688
Pension liability (Note 12)	**1,412,435**	1,412,435
Deferred tax liability (Note 13)	**3,153,127**	3,153,127
Total Liabilities	**565,351,353**	556,761,738
Stockholders' Equity		
Capital stock	**500,000,000**	500,000,000
Additional paid-in capital	**292,499,652**	292,499,652
Deficit	**(732,433,574)**	(724,111,355)
Net Stockholders' Equity	**60,066,078**	68,388,297
	₱625,417,430	₱625,150,035

MRC ALLIED INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For The Period January to March (Three-Month)	
	2006	2005
REVENUE		
Foreign exchange gain	**₱-**	₱–
Maintenance and other fees	-	-
Gain on disposals of:		
Investment in shares of stock of an associate (Note 4)	–	-
Property and equipment	–	-
Equity in net earnings of an associate	–	-
Others	**32,765**	223,665
	32,765	223,665
EXPENSES		
Interest	**5,830,219**	5,766,151
General and administrative (Notes 10, 11 and 12)	**2,524,765**	2,345,430
Provision for doubtful accounts	-	–
Foreign exchange loss	–	-
	8,354,984	8,111,581
LOSS BEFORE INCOME TAX	**8,322,219**	7,887,916
PROVISION FOR CURRENT INCOME TAX (Notes 13 and 15)	-	-
NET LOSS (Note 1)	**₱8,322,219**	₱7,887,916
Loss Per Share (Note 14)	**₱0.0166**	₱0.0157

See accompanying Notes to Consolidated Financial Statements.

MRC ALLIED INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	For The Period January to March (Three-Month)	
	2006	2005
CAPITAL STOCK - ₱1 par value		
Authorized and issued - 500,000,000 shares	**₱500,000,000**	₱500,000,000
ADDITIONAL PAID-IN CAPITAL	**292,499,652**	292,499,652
DEFICIT		
Balance at beginning of year:		
As previously reported	**(724,111,355)**	(691,641,761)
Effect of change in accounting for employee benefits	**-**	2,726,720
As restated	**(724,111,355)**	(688,915,041)
Net loss	**(8,322,219)**	(35,196,314)
Balance at end of year	**(732,433,574)**	(724,111,355)
	₱60,066,078	₱68,388,297

See accompanying Notes to Consolidated Financial Statements.

MRC ALLIED INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Period January to March (Three-Month)	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱8,322,219)**	(₱7,887,916)
Adjustments for:		
Interest expense	-	-
Unrealized foreign exchange loss (gain)	-	7,177
Depreciation and amortization	**6,754**	-
Gain on disposal of investment in shares of associate	–	-
Equity in net earnings of an associate	–	-
Gain on disposal of property and equipment	–	-
Interest income	–	
Operating loss before working capital changes	**(8,315,465)**	(7,880,739)
Provisions for:		
Doubtful accounts	-	–
Impairment	–	-
Decrease (increase) in accounts receivable	**(78,672)**	(228,492)
Increase (decrease) in:		
Accounts payable and other liabilities	**8,389,394**	8,114,986
Pension liability	-	-
Net cash generated from (used for) operations	**(4,743)**	5,755
Income tax paid	-	-
Interest received	–	-
Net cash provided by (used in) operating activities	**(4,743)**	5,755
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment	–	-
Dividends received	–	-
Cash provided by investing activities	–	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to related parties	–	-
Payments of:		
Bank loans	–	-
Interest	–	-
Cash used in financing activities	–	-
NET INCREASE (DECREASE) IN CASH	**(4,743)**	5,755
CASH AT BEGINNING OF YEAR	**70,507**	70,507
CASH AT END OF YEAR	**₱65,764**	₱76,262

See accompanying Notes to Consolidated Financial Statements.

MRC ALLIED INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

MRC Allied Industries, Inc. (the Parent Company) is incorporated in the Philippines. The Parent Company together with its wholly owned subsidiary (collectively referred to as "the Company") is engaged in the development and sale of real estate. The registered office address of the Parent Company is New Cebu Township One (NCTO), Brgy. Cantao-an, Naga, Cebu.

As shown in the accompanying consolidated financial statements, the Parent Company and its subsidiary incurred net losses of ₱8.3 million and ₱7.8 million for the quarters ended March 31, 2006 and 2005, respectively, resulting in a deficit of ₱732.4 million and ₱724.1 million as of March 31, 2006 and 2005, respectively because it has substantially reduced its development activities. The Parent Company was also unable to pay principal and interest amortizations on its bank loans. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

To address the present financial difficulties, management is undertaking the following:

a. Continuous negotiation with its creditor banks for the restructuring of its loans;

b. Communication with prospective investors as part of its marketing efforts;

c. Disposal of saleable assets; and

d. Engaging in other revenue-generating activities like selling filling materials to raise funds to partially service loans.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on May 26, 2006.

2. Summary of Significant Accounting Policies

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with generally accepted accounting principles (GAAP) in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Philippine Accounting Standards Council. These are the Company's first consolidated financial statements prepared in compliance with PFRS.

The Company prepared its consolidated financial statements until December 31, 2004 in accordance with Statements of Financial Accounting Standards and Statements of Financial Accounting Standards/International Accounting Standards.

The Company applied PFRS 1, “First-time Adoption of Philippine Financial Reporting Standards,” in preparing the consolidated financial statements, with January 1, 2004 as the date of transition. An explanation of how the transition to PFRS has affected the reported financial position, financial performance and cash flows of the Company is provided also under “Changes Arising from the Transition to PFRS.”

The consolidated financial statements have been prepared on a historical cost basis.

Reporting Currency

The consolidated financial statements are presented in Philippine peso and all values are rounded off to the last Philippine peso unit except when otherwise indicated.

Changes Arising from the Transition to PFRS

As stated under Statement of Compliance, these are the Company’s first consolidated financial statements prepared in compliance with PFRS. An explanation of the effects of the transition to PFRS is set forth in the following tables and notes.

Reconciliation of Balance Sheet

	As of January 1, 2004 (date of transition) (amount in ₱‘000)			As of December 31, 2004 (end of last period presented under previous GAAP) (amount in ₱‘000)		
	Previous GAAP	Effect of transition to PFRS	PFRS	Previous GAAP	Effect of transition to PFRS	PFRS
ASSETS						
Cash	₱183	₱–	₱183	₱71	₱–	₱71
Accounts receivable - net	4,830	–	4,830	1,013	–	1,013
Investments and advances - net	10,029	–	10,029	–	–	–
Due from a related party - net	–	–	–	4,944	–	4,944
Real estate projects - net	620,700	–	620,700	620,700	–	620,700
Property and equipment - net	10,907	–	10,907	2,885	–	2,885
Other assets - net	858	–	858	858	–	858
Total Assets	₱647,507	₱–	₱647,507	₱630,471	₱–	₱630,471
LIABILITIES AND STOCKHOLDERS’ EQUITY						
Liabilities						
Bank loans	₱151,355	₱–	₱151,355	₱147,053	₱–	₱147,053
Accounts payable and other liabilities	333,028	(3,950)	329,078	354,986	(4,150)	350,836
Estimated liability for land development	23,616	–	23,616	23,616	–	23,616
Due to a related party	917	–	917	917	–	917
Pension liability	–	1,036	1,036	–	1,311	1,311
Deferred tax liability	3,153	–	3,153	3,153	–	3,153
Total Liabilities	₱512,069	(₱2,914)	₱509,155	₱529,725	(₱2,839)	₱526,886

(Forward)

	As of January 1, 2004 (date of transition) (amount in ₱'000)			As of December 31, 2004 (end of last period presented under previous GAAP) (amount in ₱'000)		
	Previous GAAP	Effect of transition to PFRS	PFRS	Previous GAAP	Effect of transition to PFRS	PFRS
Stockholders' equity						
Capital stock	₱500,000	₱–	₱500,000	₱500,000	₱–	₱500,000
Additional paid-in capital	292,500	–	292,500	292,500	–	292,500
Deficit	(657,062)	2,914	(654,148)	(691,754)	2,839	(688,915)
Net stockholders' equity	135,438	2,914	138,352	100,746	2,839	103,585
	₱647,507	₱–	₱647,507	₱630,471	₱–	₱630,471

Reconciliation of Statement of Operations for 2004

	Previous GAAP	Effect of transition to PFRS	PFRS
	(In Thousands, Except for Loss per Share)		
Revenues			
Foreign exchange gain	₱–	₱–	₱–
Maintenance and other fees	3,071	–	3,071
Gain on disposals of:			
Investment in shares of stock			
of an associate (Note 4)	5,075	–	5,075
Property and equipment	749	–	749
Equity in net earnings of an associate	2,396	–	2,396
Others	284	–	284
	11,575	–	11,575
Expenses			
Finance cost - net	23,882	–	23,882
General and administrative	21,760	75	21,835
Provision for doubtful accounts	–	–	–
Foreign exchange loss	442	–	442
	46,084	75	46,159
Loss before income tax	34,509	75	34,584
Provision for income tax	183	–	183
Net loss	₱34,692	75	₱34,767
Basic loss per share	₱0.07		₱0.07

PAS 19, "Employee Benefits," requires the Company to determine the present value of defined benefit obligations and the fair value of any plan assets at every balance sheet date that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the balance sheet date. Adoption of the standard resulted to a decrease in deficit by ₱2.7 million and ₱2.8 million as of January 1 and December 31, 2004, respectively. Net loss increased by ₱0.08 million in 2004.

Effect on the Cash Flow Statement for 2004. There are no material differences between the cash flow statement prepared under PFRS and the cash flow statement presented under previous GAAP.

Other Standards Adopted. The Company has also adopted the following other PFRS. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on stockholders' equity at January 1 and December 31, 2004:

- PAS 1, "Presentation of Financial Statements";
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors";
- PAS 10, "Events after the Balance Sheet Date";
- PAS 16, "Property and Equipment";
- PAS 24, "Related Party Disclosures";
- PAS 32, "Financial Instruments: Disclosure and Presentation";
- PAS 33, "Earnings Per Share";
- PAS 39, "Financial Instruments: Recognition and Measurement"; and,
- PAS 40, "Investment Property."

Standards not yet Effective. The Company did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, "Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures." The revised disclosures from the amendments will be included in the consolidated financial statements when the amendments are adopted in 2006.

- PFRS 7, "Financial Instruments - Disclosures." The revised disclosures on financial instruments provided by this standard will be included in the consolidated financial statements when the standard is adopted in 2007.

<u>Use of Estimates</u>

The accompanying consolidated financial statements prepared in conformity with PFRS require management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. In preparing these consolidated financial statements, the Company have made its best estimates and judgments of certain amounts, giving due consideration to materiality. The Company believes that the following represent a summary of these significant estimates and judgments and related impact and associated risks in the consolidated financial statements.

- Estimating the useful lives of property and equipment

  The Company estimates the useful lives of property and equipment based on the period over which the property and equipment are expected to be available for use. The estimated useful lives of the property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear and legal or other limits on the use of the property and equipment. In addition, the estimation of the useful lives of property and equipment are based on the experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the balance of property and equipment.

As of December 31, 2005 and 2004, the carrying values of the property and equipment amounts to ₱2,858,790 and ₱2,885,360, respectively.

- Pension benefits

  The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, which include among others, discount rates and rates of compensation increase, are described in Note 12. In accordance with PAS 19, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

  As of December 31, 2005 and 2004, the pension liability amounts to ₱1,412,435 and ₱1,311,005, respectively.

- Deferred tax assets

  The Company's assessment on the recognition of deferred tax assets on nondeductible temporary differences is based on the forecasted taxable income of the following reporting period.

  The Company's deferred tax assets were not recognized since the Company is incurring taxable loss and it is not probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits can be applied. Unrecognized deferred tax assets amounted to ₱467,124,972 and ₱569,037,175 as of December 31, 2005 and 2004, respectively.

- Allowance for doubtful accounts

  The Company assesses whether objective evidence of impairment exist for receivables that are individually significant and collectively for receivables that are not individually significant. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables.

  As of December 31, 2005 and 2004, the allowance for doubtful accounts amounts to ₱249.3 million and ₱244.4 million, respectively. The carrying values of accounts receivables amounted to ₱1.5 million and ₱1.0 million as of December 31, 2005 and 2004, respectively. Due from related parties is fully provided with allowance for doubtful accounts in 2005 and has a carrying value of ₱4.9 million in 2004.

- Impairment of assets

  The Company determines whether asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

  As of December 31, 2005 and 2004, allowance for impairment on other assets amounted to ₱57.2 million and ₱56.3 million, respectively. Allowance for impairment on property and equipment amounted to ₱7.0 million as of December 31, 2005 and 2004.

- Estimated liability for Land Development

  Obligations to complete development of real estate project are recognized in the parent company balance sheets and are based on costs generally expected in the construction industry locally. These estimated costs are reviewed at least annually and are updated if expectations differ from previous estimates mainly due to changes in development plan, materials and labor prices.

  The carrying amount of estimated liability for land development amounted to ₱23.6 million as of December 31, 2005 and 2004.

<u>Investments and Other Financial Assets</u>
Starting January 1, 2005, the following are the policies for financial assets and liabilities:

Financial assets in the scope of PAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial Assets at Fair Value through Profit or Loss. Financial assets classified as held for trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statements of operations.

The Company has no financial assets classified under this category.

Held-to-Maturity Investments. Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the consolidated statements of operations when the investments are derecognized or impaired, as well as through the amortization process.

The Company has no held-to-maturity investments.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of operations when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company's accounts receivables and due from related parties are classified under this category.

Available-for-Sale Financial Assets. Available-for-sale financial assets are those nonderivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of stockholders' equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in stockholders' equity is included in the consolidated statements of operations.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

The Company has no available-for-sale financial assets.

Impairment of Financial Assets

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

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the 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 that have not been incurred) 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 the loss shall be recognized in consolidated income or loss.

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

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

Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, 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.

Available-for-Sale Financial Assets. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in income or loss, is transferred from stockholders' equity to the consolidated statements of operations. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through income 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 consolidated statements of operations.

<u>Derecognition of Financial Assets and Liabilities</u>

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 where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

<u>Principles of Consolidation</u>
The consolidated financial statements include the accounts of the Parent Company and its wholly owned subsidiary, Makrubber Corporation (Makrubber).

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases.

<u>Receivables</u>
Receivables are recognized and carried at original invoice amounts or face value less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts.

Real Estate Projects

Real estate projects are stated at the lower of cost or net realizable value. Expenditures for development and improvements are capitalized as part of the cost of the land. Costs of land and improvements include interest incurred, while development is in progress, on loans the proceeds of which were used to finance the development of the land. Interest capitalization is suspended for the periods in which there are no active development and improvements. Net realizable value is the selling price in the ordinary course of business, less marketing costs.

Property and Equipment

Property and equipment, except for land, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land is stated at cost less any impairment in value.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of its assets of 5 years or term of lease, whichever is shorter.

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

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial year end.

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

Borrowing cost to the extent incurred during the period of construction is also capitalized as part of the cost of the asset as long as the resulting carrying amounts of the assets will not exceed their replacement costs or recoverable values. Capitalized borrowing cost is amortized over the assets' depreciable lives.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value, are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Construction-in-progress, included in property and equipment, is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of operations in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in consolidated income or loss.

Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statements of operations in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. 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 the consolidated statements of operations unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation and amortization charges are 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.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 an interest expense.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Income from sale of land is accounted for under the full accrual method. Under this method, gain is not recognized until the earnings process is virtually complete and collectibility of the sales price is reasonably assured.

Interest income is recognized as the interest accrues.

Maintenance fees are recognized as the services are provided.

Cost of Real Estate Sold

The estimated future expenditures for the development of the sold portion are shown under "Estimated Liability for Land Development" account in the consolidated balance sheets.

Operating Lease

Operating lease payments are recognized as expense in the consolidated statements of operations on a straight-line basis over the terms of the lease agreement.

Pension Plan

The cost of providing benefit under the defined benefit plan is determined using the projected unit credit actuarial valuation method. This method reflects services rendered by employees to the date of valuation and incorporates assumption concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. Gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

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

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly.

Foreign Currency-denominated Translation

The consolidated financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. All differences are taken to consolidated income or loss. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Borrowing Costs

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

Taxes

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 the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Tax. Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused MCIT and NOLCO can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Loss Per Share
Loss per share is determined by dividing net loss by the weighted average number of shares outstanding during the year.

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

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

3. Accounts Receivable

This account consists of:

	March 31, 2006	December 31, 2005
Trade receivables	**₱42,944,071**	**₱42,944,071**
Advances to:		
Suppliers	**13,192,302**	**13,192,302**
Officers and employees (see Note 10)	**1,453,407**	**1,408,907**
Others	**32,221,781**	**32,187,608**
	89,811,561	**89,732,888**
Less allowance for doubtful accounts	**88,213,253**	**88,213,253**
	₱1,598,308	**₱1,519,635**

Other receivables consist of amounts with immaterial balances.

4. Investment in an Associate

Air Liquide bought its own shares of stock from the Company in August 2004 for a total consideration of ₱15.0 million. The proceeds were used to pay accounts payable, loans payable and related interests amounting to ₱9.0 million. The remaining amount of ₱4.9 million was advanced to Kenyon Holding Corporation (Kenyon), another related party

5. Real Estate Projects

This account consists of:

	March 31, 2006	December 31, 2005
Developed land for sale	**₱247,445,054**	₱247,445,054
Land under development	**373,254,706**	373,254,706
	₱620,699,760	₱620,699,760

As discussed in Note 1, the Company substantially reduced its development activities. No allowance for probable losses was recognized because the fair market value of the projects is higher than the carrying amount. Certain real estate projects amounting to ₱91.0 million in 2005 and 2004 were used as collaterals for the Company's bank loans (see Note 8).

6. Property and Equipment

This account consists of:

	March 31, 2006								December 31, 2005
	Land	**Transportation Equipment**	**Land Improvements**	**Furniture, Fixtures and Equipment**	**Building Improvements**	**Machinery and Equipment**	**Construction in Progress**	**Total**	
Cost									
Balance at beginning of year	**₱2,837,610**	**₱14,976,805**	**₱7,076,743**	**₱1,546,524**	**₱2,130,686**	**₱44,587,146**	**₱6,954,021**	**₱80,109,535**	₱80,109,535
Disposals	–	–	–	–	–	–	–	–	-
	2,837,610	**14,976,805**	**7,076,743**	**1,546,524**	**2,130,686**	**44,587,146**	**6,954,021**	**80,109,535**	80,109,535
Accumulated Depreciation, Amortization and Impairment									
Balance at beginning of year	–	**14,976,805**	**7,076,743**	**1,525,344**	**2,130,686**	**44,587,146**	**6,954,021**	**77,250, 745**	77,224,175
Depreciation and amortization for the year	–	–	–	**6,755**	–	–	–	**6,755**	26,570
Impairment	–	–	–	–	–	–	–	–	-
Disposals	–	–	–	–	–	–	–	–	-
	–	**14,976,805**	**7,076,743**	**1,532,099**	**2,130,686**	**44,587,146**	**6,954,021**	**77,257,500**	77,250,745
Net Book Value	**₱2,837,610**	**₱–**	**₱–**	**₱14,425**	**₱–**	**₱–**	**₱–**	**₱2,852,035**	₱2,858,790

7. Other Assets

This account consists of:

	March 31, 2006	December 31, 2005
Investment properties	**₱43,989,698**	₱43,989,698
Creditable withholding taxes	**9,542,735**	9,542,735
Deposits	**3,653,264**	3,653,264
	57,185,697	57,185,697
Less allowance for probable losses and impairment	**57,185,697**	57,185,697
	₱–	₱–

Investment properties pertain to property and equipment of Makrubber available for sale and lease. Makrubber ceased its operations in 2000. Makrubber stopped its operations because of the worsening raw material supply due to the Land Reform program and the peace and order problems in North Cotabato.

Because of the peace and order problem in North Cotabato, the Company does not expect to recover from sale and lease of the properties and thus was provided for with full allowance for impairment.

8. Bank Loans

This account represents loans obtained from local banks with interest at prevailing market rates. These are collateralized by a mortgage on a portion of the Company's real estate projects (see Note 5). Because of financial difficulties, the Company was unable to meet the principal and interest amortizations on these loans. Accordingly, the loans are currently due.

9. Accounts Payable and Other Liabilities

This account consists of:

	March 31, 2006	December 31, 2005
Accrued:		
Interest and penalties (see Note 8)	**₱256,063,708**	₱250,233,489
Taxes and licenses	**9,374,890**	9,374,890
Salaries and benefits	**4,204,173**	4,208,970
Other expenses	**4,848,698**	4,815,659
Accounts payable (see Note 10)	**98,236,471**	95,697,047
Withholding tax payable	**17,412,134**	17,220,404
Output tax payable	**1,091,185**	1,091,185
	₱391,231,259	₱382,641,644

Accounts payable pertains to payable to contractors, trade and non-trade suppliers.

10. **Related Party Transactions**

The Company's transactions with companies owned by stockholders and officers mainly consist of the following:

a. Management fee of ₱6.0 million in 2005 and 2004, respectively, to Erudite Management Corporation.

b. Availment of noninterest-bearing cash advances from Marketing Research Corporation for working capital requirements.

c. Transfer of real estate projects with a carrying value of ₱256.5 million to Asian Appraisal Holdings Inc. (AAHI) in full settlement of obligations to AAHI of ₱122.3 million in 2002. The difference between the carrying values of the obligations settled and the real estate projects transferred amounting to ₱156.1 million was recorded under "Due from related parties" account in the consolidated balance sheets. The receivable was provided with full valuation allowance since AAHI is in financial difficulty.

d. Noninterest-bearing cash advances to Kenyon amounting to ₱4.9 million in 2004. The receivable was provided with full valuation allowance in 2005 since the Company does not expect to collect the debt from Kenyon.

e. Noninterest-bearing cash advances to officers and employees.

f. Use of a portion of office space leased by affiliate. Share in rent amounted to ₱0.08 million in 2005 and ₱0.20 million in 2004. Sharing agreement is renewable annually.

g. Compensation of key management personnel of the Company comprised of short-term employee benefits amounted to ₱0.84 million in 2005 and 2004

Outstanding balances arising from related party transactions are summarized below:

	March 31, 2006	December 31, 2005
Advances to officers and employees	**₱1,453,407**	₱1,408,907
Due from related parties - net of allowance for doubtful accounts of ₱161,082,889 in 2005 and ₱156,139,288 in 2004	**–**	–
Due to a related party	**916,688**	916,688
Accounts payable	**5,165,386**	5,165,386

11. **General and Administrative**

This account consists of:

	March 31, 2006	March 31, 2005
Professional fees (see Note 10)	**₱1,890,267**	₱1,529,999
Manpower cost (see Note 12)	**348,456**	390,526
Communication, light and water	**45,335**	63,152
Rent (see Note 10)	-	69,445
Supplies	**11,501**	25,715
Entertainment, amusement and representation		16,218
Transportation and travel	**3,500**	14,552
Depreciation and amortization	**6,755**	7,177
Impairment loss	**–**	-
Taxes and licenses	**–**	-
Repairs and maintenance	**–**	-
Fuel and oil	**–**	-
Others	**218,951**	228,646
	₱2,524,765	₱2,345,430

12. **Pension Liability**

The Company has an unfunded, defined benefit pension plan covering all of its permanent employees.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of operations and the funded status and amounts recognized in the consolidated balance sheets.

Net Benefit Expense

	March 31, 2006	December 31, 2005
Current service cost	**₱69,888**	₱69,888
Interest cost	**69,707**	69,707
Net actuarial gain recognized during the year	**(38,165)**	(38,165)
Net benefit expense	**₱101,430**	₱101,430

Pension Liability

	March 31, 2006	December 31, 2005
Present value of obligation	**₱342,106**	₱342,106
Unrecognized actuarial gain	**1,108,494**	1,108,494
Actuarial gain recognized	**(38,165)**	(38,165)
	₱1,412,435	₱1,412,435

Changes in the present value of the defined benefit obligation are as follows:

	March 31, 2006	December 31, 2005
Opening defined benefit obligation	**₱497,910**	₱497,910
Current service cost	**69,888**	69,888
Interest cost	**69,707**	69,707
Actuarial gain	**(295,399)**	(295,399)
Closing defined benefit obligation	**₱342,106**	₱342,106

The principal actuarial assumptions used to determine the pension benefits as of December 31, 2005 and 2004, include discount rate of 12% and 14%, respectively and a salary increase of 10% a year.

13. **Income Taxes**

The Company’s temporary differences, MCIT and NOLCO are as follows:

	March 31, 2006	December 31, 2005
Allowance for doubtful accounts	**₱249,296,143**	₱249,296,143
NOLCO	**143,565,177**	143,565,177
Allowance for probable losses	**57,185,697**	57,185,697
Unrealized foreign exchange loss	**15,230,523**	15,230,523
Pension liability	**1,412,435**	1,412,435
MCIT	**434,997**	434,997
	₱467,124,972	₱467,124,972

The Company’s deferred tax assets were not recognized because it is not probable that the Company will generate taxable income against which the deductible temporary differences, MCIT and NOLCO can be applied.

As of December 31, 2005, the Company has NOLCO and MCIT that can be carried forward and claimed as deduction against the regular taxable income and tax credit from regular income tax, respectively, as follows:

Year Incurred	Expiry Date	NOLCO	MCIT
2005	2008	₱31,711,186	₱10,086
2004	2007	36,053,878	183,458
2003	2006	75,800,113	241,453
		₱143,565,177	₱434,997

NOLCO of ₱137,344,105 and MCIT of ₱183,458 incurred in 2002 expired in 2005.

The Company’s deferred tax liability pertains to the income tax effect of capitalized interest of ₱3.2 million as of December 31, 2005 and 2004.

The current provision for income tax represents MCIT. A reconciliation between the benefit from income tax as computed using the statutory tax rates and the provision for current income tax as shown in the consolidated statements of operations follows:

	March 31, 2006	December 31, 2005
Benefit from income tax at statutory tax rates of 32.5% in 2005 and 32% in 2004	**(₱11,435,524)**	(₱11,435,524)
Add (deduct):		
Change in unrecognized deferred income tax	**(34,131,834)**	(34,131,834)
Equity in net earnings of an associate	**–**	–
EAR	**12,632**	12,632
Others	**–**	–
Effect of change in tax rates	**45,564,812**	45,564,812
	₱10,086	₱10,086

In May 2005, Republic Act (R.A.) No. 9337 was signed into law, amending certain provisions of Tax Reform Act of 1997 including the Expanded VAT Act. R.A. No. 9337 that should have taken effect on July 1, 2005. However, subsequent to July 1, 2005, a temporary restraining order was issued against R.A. No. 9337, which was subsequently lifted on November 1, 200 5. R.A. No. 9337 introduces the following changes, among others:

a. Lifts exemptions on power, fuel and services of doctors and lawyers, among others transactions.

b. VAT rate increased to 12% from 10% effective February 1, 2006.

c. Regular corporate income tax rate incurred to 35% from 32% effective November 1, 2005 and will revert to 30% effective January 1, 2009.

14. Loss Per Share

The following table presents information necessary to calculate loss per share:

	March 31, 2006	December 31, 2005
Net loss (a)	**₱8,322,219**	₱35,196,314
Weighted average number of shares outstanding (b)	**500,000,000**	500,000,000
Loss per share (a/b)	**₱0.0166**	₱0.07

15. Registration with the Philippine Economic Zone Authority (PEZA)

The Company is registered with PEZA under Republic Act No. 7916, otherwise known as the "Special Economic Zone Act of 1995", as a developer/operator of the following economic zones: (a) New Cebu Township in Barangay Cantao-an, Naga, Cebu; and (b) Amihan Woodlands Township in Leyte.

As a PEZA-registered developer/operator, the Company is subject to the payment of 5% tax on gross income of the PEZA-registered activities, in lieu of all national and local taxes.

The Company's non PEZA-registered activities are subject to 35% and 32% regular corporate income tax as of December 31, 2005 and 2004, respectively.

16. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash, accounts receivables, accounts payable and other current liabilities and interest-bearing bank loans and due to and from related parties. The main purpose of these financial instruments is to finance the Company's operations.

The main risks arising from the Company's financial instruments are liquidity risk, credit risk, interest rate risk and foreign currency risk. The Company's BOD and management review and agree policies for managing each of these risks and they are summarized below.

Liquidity Risk
The Company's objective is to maintain a balance between continuity of funding and flexibility.

Credit Risk
With respect to credit risk arising from the other financial assets of the Company, which comprise of cash, accounts receivable and advances to related parties, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Interest Rate Risk
The Company's bank loans having fixed interest rate are subject to cash flow interest rate risk.

Foreign Currency Risk
The Company's exposure to foreign currency risk is transactional currency. Such exposure arises from borrowings. Approximately 24% of the Parent Company's bank loans are denominated in currencies other than the functional currency.

17. Financial Instruments

Set out below is a comparison by category of carrying values and fair values of all of the Company's financial instruments that are carried in the consolidated financial statements as of December 31, 2005:

	Carrying Value	Fair Value
Cash	₱71,850	₱71,850
Accounts receivable	1,519,635	1,519,635
Bank loans	145,021,508	145,021,508
Accounts payable and other liabilities	382,641,644	382,641,644
Due to a related party	916,688	916,688

Due to the short-term nature of the transactions, the fair values approximate the amount of consideration at balance sheet date.

18. Litigation and Claims

The Company is involved in litigations and claims, which arise in the normal course of business. Management and its legal counsel believe that the resolution of these cases will not have a material effect on the consolidated financial position and results of operations.

MRC ALLIED INDUSTRIES, INC.
AGING OF ACCOUNTS RECEIVABLE
AS OF MARCH 31, 2006

		Total	30 days	31-60 days	61-90 dys	91-120 days	121-360 days	360 days and above
a)	Accounts Receivable - Trade	**42,944,071.00**						42,944,071.00
	Sub-Total	**42,944,071.00**					0.00	42,944,071.00
b)	Non-Trade Receivable:							
	Notes Receivable	**1,266,666.70**						1,266,666.70
	Accounts Receivable-Various Suppliers	**45,414,083.00**	7,456.00	9,315.00	9,970.17	190,386.60	204,919.60	44,992,035.63
	Advances- Officers and Employees	**1,453,407.00**	11,150.00	11,256.00	12,000.00	15,000.00	5,000.00	1,399,001.00
	Sub-Total	**46,867,490.00**	18,606.00	20,571.00	21,970.17	205,386.60	209,919.60	47,657,703.33
	Total	**89,811,561.00**	18,606.00	20,571.00	21,970.17	205,386.60	209,919.60	90,601,774.33
	Less:Allowance for doubtful accounts	**(88,213,253.07)**						(88,213,253.07)
	Net Receivable	**1,598,307.93**	18,606.00	20,571.00	21,970.17	205,386.60	209,919.60	2,388,521.26