



ALLIANCE SELECT FOODS  
INTERNATIONAL, INC.

A PUBLICLY LISTED COMPANY

June 2, 2014

**The Philippines Stock Exchange, Inc.**

3<sup>rd</sup> Floor, PSE Plaza,  
Ayala Triangle, Ayala Avenue  
Makati City 1226

**Attention: Janet A. Encarnacion**

*Head - Disclosure Department*

Ma'am,

This is in response to your letter today seeking clarification on an article on Alliance Select Foods International, Inc. (Alliance or the Company) that appeared under the title "Alliance Select Food row winds up in court" posted in Philippine Daily Inquirer internet edition on June 2, 2014. The article reported in part that:

*"MANILA, Philippines—The squabble between the Filipino and Singaporean shareholders of Alliance Select Foods International Inc. has wound up in court, with the controlling local group accused of mismanagement, self-dealing and siphoning off company funds.*

*Alliance Select and minority shareholders Harvest All Investment Ltd., Victory Fund Limited, Bondeast Private Ltd. and director Hedy Yap-Chua filed the lawsuit with the Pasig regional trial court last May 27.*

*In a statement, the group of foreign shareholders led by Yap-Chua accused Alliance directors George SyCip, Ibarra Malonzo, Alvin Dee, Jonathan Dee and three other company officials of 'colluding to enter into transactions that were advantageous to them and/or their interests but grossly disadvantageous to the company.'*

*Because of the alleged self-dealing and related transactions undertaken by management for years, 'Alliance Select is barely able to pay interest on its maturing loans to the government and private banks without resorting to advances from current stockholders or infusions of equity from new investors at the expense of diluting the company's shareholders,' the complainants said in a statement.*

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*The Singaporean bloc claimed that Alliance's financial situation became 'so dire' that by the end of 2013, its standalone cash was only equivalent to one month's operating expenses.*

*Among the transactions cited in the derivative suit was a series of multimillion-dollar payments of company funds authorized by Alliance management to BSJ Fishing and Trading Inc., a fishing company 58.4-percent owned by Lope Jimenez. Jimenez also owned a 4.2-percent stake in Alliance Select as the canning company entered into a series of transactions with BSJ from 2008 to 2011, the statement said.*

*The court petition accused Jonathan Dee, the company chief executive officer, and the rest of the respondents of paying P685.3 million in company funds to BSJ 'without benefiting Alliance and, apparently, despite the absence of prior approval from the Alliance board.'*

*But when BSJ went bankrupt, Dee altered his justification for the disbursements, claiming it to be loans to BSJ.*

*'These loans were hidden and wiped off the company's books at the same time by a dubious dacion agreement with BSJ for vessels of suspect value,' the complainants said.*

*...."*

The Company has not yet seen the lawsuit filed with the Pasig regional trial court on May 27, 2014 so it would not be able to comment on specific issues raised in the said lawsuit.

However, based on the article we would like to address the issues contained in the newspaper article mentioned above.

BSJ Fishing & Trading, Inc. ("BSJ") is a fishing company that used to be the major fish supplier of Alliance at the latter's tuna manufacturing plant in General Santos City. Alliance has bought fish supplies from BSJ since Alliance started operations in the plant 2004. BSJ allowed Alliance to buy its fish on a forward basis, meaning that a pre-agreed price is determined for certain quantities of fish for delivery still several months ahead. Alliance would pay 50% down payment on the full purchase order and pay the balance upon actual delivery months into the future. This was beneficial to Alliance because with an assured supply of fish at a fixed, pre-agreed price, Alliance was able to book sales and sell forward at a price of finished goods that it was confident of ahead of time and with certainty of the profits it could make on the sale. Otherwise stated, Alliance had control of its selling price by closing the purchase price of frozen fish with BSJ several months ahead of delivery, enabling Alliance to sell ahead of the market and to do so profitably.

Another advantage was that Alliance received a price break on the fish purchase, giving it a significant cost advantage over its competitors since fish constitutes about two-thirds of the cost of the finished goods. No other fish supplier gives this kind of arrangement, as all other suppliers: (i) would quote fish prices on spot basis, meaning the prevailing market price, which often fluctuates, at times significantly, so that canneries cannot be assured of being able to eventually sell their finished goods at a profit; and (ii) imposed stiff terms of payment, e.g., require letters of credit as payment for 95% of the value of the fish, which must be opened two weeks before the delivery of the fish.

For many years and until BSJ ran into financial difficulties (it had to eventually stop fish deliveries to Alliance in 2012), the profits of ASFII, in part, had been due to an assured supply of fish coming from BSJ. The supposed “series of multimillion-dollar payments of company funds authorized by Alliance management to BSJ” are none other than the deposits for fish deliveries over the years that Alliance had to make in favor of BSJ under their mutually beneficial fish supply arrangement. The amount of fish deposit had become bigger because of poor deliveries by BSJ when it suffered financial problems. Alliance required BSJ to secure the obligation with the mortgage of its fishing vessels, which BSJ complied with.

The fish deposit account has appeared in Alliance’s Audited Financial Statements as released by Deloitte Philippines (Manabat Delgado Amper & Co.) and had never been “hidden” from view. Nor was it “wiped off the company’s books by a dubious dacion agreement.” As disclosed to the PSE on September 7, 2012, Alliance acquired six (6) commercial tuna fishing vessels from BSJ “(to) settle in full BSJ’s obligation to ASFII for fish deposits totaling approximately US\$15 million.” With the acquisition, Alliance “expects to ease its dependence on fish suppliers for its tuna business as it will give the Company direct access to raw materials,” with the move “represent(ing) another step by ASFII in the direction of vertical integration.”

As for the reason why BSJ became a stockholder of Alliance, when Alliance went public, BSJ bought shares in the stock exchange. The Company’s records indicate that BSJ sold its shares in Alliance towards the end of 2009.

In respect of the fish supply arrangement with BSJ, there was no “colluding to enter into transactions that were advantageous to” Alliance directors George SyCip, Ibarra Malonzo, Alvin Dee, Jonathan Dee or any other company officials or “grossly disadvantageous to the company.” Nor were there any “self-dealing and related transactions undertaken by management.”

As to the claim that “Alliance Select is barely able to pay interest on its maturing loans to the government and private banks without resorting to advances from current stockholders or infusions of equity from new investors at the expense of

diluting the company's shareholders" the Company has never missed any payment deadlines on maturing loans. And these payments have been made from cash generated from operations rather than advances from shareholders as alleged in the news article.

It is also patently false that the company's financial situation became "so dire" that by the end of 2013, its standalone cash was only equivalent to one month's operating expenses. Canned tuna and smoked salmon are working capital intensive businesses wherein the bulk of short term assets are always in inventories and receivables. To efficiently use cash and maximize use of assets, it is best not to leave cash idle in bank but rather use this asset optimally by acquiring fish raw materials which would then be used to generate cash and profits. This is the industry standard and is what exactly the management has been doing and this in no way can be interpreted as a "dire" financial situation.

We trust that the above sufficiently addressed your concerns.

Thank you very much.

Yours truly,



~~Rajat Balain~~  
Corporate Information Officer