



MEDCO HOLDINGS, INC.

August 14, 2013

PHILIPPINE STOCK EXCHANGE, INC.

PSE Center, Exchange Road

Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**

Head- Disclosure Department

Re: **SEC Form 17-Q for June 30, 2013**

Gentlemen:

In compliance with the Philippine Stock Exchange (“PSE”) Disclosure Rules, please find attached the SEC Form 17-Q for the second quarter ended June 30, 2013.

We trust that you will find the foregoing in order.

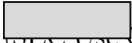
Very truly yours,

MA. LOURDES B. BATHAN

Corporate Information Officer

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 11 OF THE REVISED
SECURITIES ACT AND RSA RULE 11(a)-1(b)(2) THEREUNDER

1. For the quarterly period ended **30 June 2013**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc.**
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
6.  Only)
Industry Classification Code
7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,
Makati City, Metro Manila, Philippines** **1229**
Address of principal office
Postal Code
8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**
9. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of each class</u>	<u>Number of shares of common stock outstanding and amount debt outstanding</u>
Common	700,000,000 shares

10. Are any or all of these securities listed on the Philippine Stock Exchange. Yes [/] No []

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (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 [/] No []

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

Yes [/] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

Item 2. Management's Discussion and Analysis or Results of Operation.

2013- Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2013 decreased significantly by 72.40% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted of interest income from short-term placement. Interest income contracted because of the reduction in the deposit placements due to withdrawals for the Company's working capital requirement. There were no fees and other commissions earned for the second quarter of 2013.

On the other hand, consolidated expenses increased by 10.43% compared to last year's second quarter. The expenses for this quarter were composed of salaries and wages (50%), occupancy (11%), representation (9%), PSE fees (8%), professional fee (7%), per diem (5%) and other expenses (10%). The increase in the consolidated expenses was mainly due to the director's per diem paid in the second quarter of this year. Other than that, there was no significant movement in the expense components.

As to the balance sheet as at the end of this quarter, total assets decreased by 6.8% compared to the end of last year. The decrease in the total assets was brought about by the decrease in the cash and cash equivalents account. As mentioned above, there were withdrawals of deposit placements for working capital requirements and for advances made to other related parties, which accounts for the 30% increase in the due from related parties account. There was no significant change noted in the total liabilities.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiary, which as at June 30, 2013 consisted of P9.9 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

2012- Second Quarter Financial Highlights

Total consolidated revenues for the second quarter of 2012 decreased by 65.47% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (61%), fees and other commission (30%), interest income from short-term placement (9%). The decline in consolidated revenues was mainly due to the significant decrease in fees and other commission and dividend income. Interest income also contracted because of the substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

On the otherhand, total consolidated expenses for the second quarter of 2012 increased by 6.7% compared to last year's quarter. The increase was mainly due to the unrealized foreign exchange loss amounting to P0.48 million that resulted from the restatement of the dollar deposit placement. The expenses for this quarter were composed of salaries and wages (50%), occupancy (11%), representation (10%), loss on sale of available for sale securities (8%), professional fees (5%), and other expenses (16%).

As to the balance sheet as at the end of this quarter, total assets decreased by 9.3% as compared to last year. As mentioned above, there was a substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirements. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2011. Likewise, the decrease in the due from related parties account resulted from the collection of advances from one of its affiliates. On the liabilities side, there were reclassification of accounts from the due to related parties to accounts payable and accrued expenses. The Due to Lippo China Resources account which was included in the due to related parties account was assigned to other third parties under the accounts payable and accrued expenses account.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2012 consisted of P22.4 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2011- Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2011 increased by approximately 20% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted mainly of fees and other commissions (48%), dividend income (42%), and interest income from short-term placements (10%).

Compared to the previous year's second quarter, the increase in the consolidated revenues was mainly due to the significant increase in the cash dividend received from Manila Exposition Complex, Inc. There was no change in the fees and other commissions account. However, interest income contracted because of the decrease in the deposit placements of the Company's subsidiary due to the payment of advances to affiliates and withdrawals for its working capital requirement.

On the other hand, consolidated expenses declined by 97% compared to last year's second quarter. The expenses were composed mainly of salaries & wages (43%), representation & entertainment (17%), professional fee (12%), Occupancy (11%), PSE fees (4%), and other expenses (13%).

The significant decline in the consolidated expenses was due to the non-recurrence of the partial provision for the impairment of investment in Export and Industry Bank, Inc. amounting to P218 million which was booked in the second quarter of the previous year.

As to the balance sheet as at the end of this quarter, there was no significant change in the total assets amount as compared to the end of last year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2010. On the liabilities side, accounts payable and accrued expenses likewise decreased by 14% due to the payment of liabilities accrued as of the same date.

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons during the reporting period.

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. The Company does not also anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2011 consisted of P35 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

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.

Medco Holdings, Inc.

By:



DIONISIO E. CARPIO, JR.
President



MA. LOURDES B. BATHAN
Principal Accounting Officer

**Top Five (5) Performance Indicators
June 30, 2013, 2012 and 2011**

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2013	2012	2011	2013	2012	2011
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-72.40%	-65.47%	19.93%	-99.73%	-80.59%	-5.68%
2. Net Income Growth*	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	NA	NA	NA	NA	NA	NA
3. Return on Equity**	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	NA	NA	-5.48%	NA	NA	-222.56%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.07x	0.12x	0.19x	0.086x	0.14x	9.52x
5. Debt-to-Equity-Ratio**	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	NA	NA	5.03x	NA	NA	0.96x

* Losses

** Capital Deficiency in 2013 and 2012.

Note:

Y1= Current year

Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

**Financial Statements
June 30, 2013, 2012, and 2011**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2013 AND DECEMBER 31, 2012**

	<u>2013</u>	<u>(Audited) 2012</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note 7)	P 9,982,497	P 14,163,249
Available-for-Sale Investments (Note 8)	31,293,500	31,293,500
Loans and receivables - net (Note 9)	352,723	276,703
Due from related parties (Note 13)	2,984,986	2,599,856
Equity Investment- net (Note 10)	-	-
Other Assets (Note 11)	<u>4,552,247</u>	<u>4,447,280</u>
TOTAL ASSETS	P <u>49,165,953</u>	P <u>52,780,588</u>
<u>LIABILITIES AND EQUITY</u>		
LIABILITIES		
Accounts Payable and Accrued Expenses (Note 12)	P 1,672,061	P 2,141,556
Due to related parties (Note 13)	189,319,960	185,033,103
Retirement benefit obligation (Note 14)	<u>1,548,126</u>	<u>1,844,334</u>
	192,540,147	189,018,993
EQUITY		
Equity attributable to equityholders of the parent		
Capital Stock - P1 par value		
Authorized, Issued & outstanding- 700,000,000 shares	700,000,000	700,000,000
Additional paid-in capital	25,498,912	25,498,912
Fair value losses in available-for-sale financial assets	252	252
Deficit	<u>(846,055,554)</u>	<u>(840,245,508)</u>
Total equity attributable to equityholders of the parent	(120,556,390)	(114,746,344)
Minority interest	<u>(22,817,804)</u>	<u>(21,492,061)</u>
	(143,374,194)	(136,238,405)
TOTAL LIABILITIES AND EQUITY	P <u>49,165,953</u>	P <u>52,780,588</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
FOR THE SIX MONTHS ENDED JUNE 30, 2013 and 2012

	APRIL TO JUNE		JANUARY TO JUNE	
	2013	2012	2013	2012
REVENUES	P 54,188	P 196,328	P 68,790	P 1,238,627
EXPENSES	<u>3,788,308</u>	<u>3,430,360</u>	<u>7,204,579</u>	<u>7,433,865</u>
LOSS BEFORE MINORITY				
SHARE IN NET INCOME	(3,734,120)	(3,234,032)	(7,135,789)	(6,195,238)
MINORITY SHARE IN NET LOSS	<u>(714,388)</u>	<u>(571,065)</u>	<u>(1,325,743)</u>	<u>(1,351,691)</u>
LOSS BEFORE FINAL TAX	(3,019,732)	(2,662,967)	(5,810,046)	(4,843,547)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(3,019,732)	(2,662,967)	(5,810,046)	(4,843,547)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER (as restated)	<u>(843,035,822)</u>	<u>(826,144,900)</u>	<u>(840,245,508)</u>	<u>(823,964,320)</u>
DEFICIT AT END OF QUARTER	P <u><u>(846,055,554)</u></u>	P <u><u>(828,807,867)</u></u>	P <u><u>(846,055,554)</u></u>	P <u><u>(828,807,867)</u></u>
LOSS PER SHARE (Note 16)	P <u><u>(0.0043)</u></u>	P <u><u>(0.0038)</u></u>	P <u><u>(0.0083)</u></u>	P <u><u>(0.0069)</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2013, 2012, and 2011

		<u>2013</u>		<u>2012</u>		<u>2011</u>
Capital Stock- P1par value						
Authorized, issued and outstanding- 700,000,000	P	700,000,000	P	700,000,000	P	700,000,000
Additional Paid-In Capital		25,498,912		25,498,912		25,498,912
Fair value loss in available-for-sale financial assets		252		252		(376,801)
Deficit						
Balance, beginning of year (as restated)		(840,245,508)		(828,779,176)		(720,393,526)
Net loss		<u>(5,810,046)</u>		<u>(4,843,547)</u>		<u>(2,412,629)</u>
Balance, end of quarter		<u>(846,055,554)</u>		<u>(833,622,723)</u>		<u>(722,806,155)</u>
Total Equity Attributable to Equityholders of the Parent Company		<u>(120,556,390)</u>		<u>(108,123,559)</u>		<u>2,315,956</u>
Minority Interest		<u>(22,817,804)</u>		<u>(20,166,549)</u>		<u>35,114,280</u>
Total Equity	P	<u><u>(143,374,194)</u></u>	P	<u><u>(128,290,108)</u></u>	P	<u><u>37,430,236</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2013, 2012 AND
FOR THE YEAR ENDED DECEMBER 31, 2012

			(Audited)	
	June 30		December 31	June 30
	2013		2012	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss before tax and minority interest	P (7,135,789)	P	(14,261,897)	P (6,195,238)
Adjustments for:				
Loss on sale on available-for-sale-financial assets	-		574,165	-
Interest income	(68,233)		(307,765)	(120,017)
Unrealized forex exchange loss(gain)	-		(76,533)	487,340
Decrease(increase) in:				
Receivables	(76,020)		(21,530)	197,494
Other assets	(104,967)		(162,474)	(124,176)
Due from related parties	(385,130)		162,488	
Increase (decrease) in :				
Accounts payable and accrued expenses	(469,495)		(290,104)	56,980,747
Retirement benefit obligation	(296,208)		(528,760)	
Cash provided by (used in) operating activities	(8,535,842)		(14,912,410)	51,226,150
Cash paid for income taxes	-		(51,322)	-
Net Cash Provided by (Used in) Operating Activities	(8,535,842)		(14,963,732)	51,226,150
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	68,233		307,765	120,017
Decrease in available-for-sale securities	-		508,834	886,963
Net Cash Provided by Investing Activities	68,233		816,599	1,006,980
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds of borrowings from related parties	4,286,857		116,838,557	-
Repayment of amounts due to related parties	-		(116,600,526)	(57,773,634)
Net Cash Provided by (Used in) Financing Activities	4,286,857		238,031	(57,773,634)
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION				
OF CASH AND CASH EQUIVALENTS	-		76,533	(487,340)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,180,752)		(13,832,569)	(6,027,844)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,163,249		27,995,818	27,995,818
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	P 9,982,497	P	14,163,249	P 21,967,974

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General Information

Medco Holdings, Inc. (MHI or the Parent Company), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on April 11, 1995. The Parent Company currently conducts business as an investment holding Company. Its shares of stock are publicly traded at the Philippine Stock Exchange (PSE). The Parent Company holds ownership interest in the following companies (MHI and the subsidiaries are collectively referred to as the Group) as at June 30:

	<u>Percentage of Ownership</u>		<u>Notes</u>	<u>Nature of Business</u>
	<u>2012</u>	<u>2011</u>		
Subsidiaries:				
Medco Asia Investment Corporation (MAIC)	64.54	64.54		Investment house
Safeharbor Holdings, Inc. (SHI)	64.54	64.54	(a)	Investment holding company
Outperform Holdings, Inc. (OHI)	64.54	64.54	(a)	Investment holding company
Associate –				
Export and Industry Bank, Inc. (EIB)	10.31	10.31	(b)	Banking institution

Notes:

- (a) Indirectly owned through MAIC; dormant company
- (b) Includes direct ownership of 7.86% and indirect ownership through MAIC of 2.45%; under receivership.

The registered office of the Parent Company and its subsidiaries, which is also their principal place of business, is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

1.2 Status of Operations

- (a) The Group incurred net losses of P5,810,046 in 2013, P4,843,547 in 2012 and 2,412,629 in 2011, while the Parent Company incurred net losses of P3,396,676 in 2013, P2,382,933 in 2012 and P654,514 in 2011. As a consequence of such recurring losses, the Group and the Parent Company reported a capital deficiency (as a result of substantial deficit) of P143,374,194 and P79,018,913, respectively, as at June 30, 2013 and P136,238,405 and P75,622,237, respectively as at December 31, 2012. These conditions indicate the existence of a material uncertainty which casts significant doubt on the ability of the Group to continue as a going concern. As at June 30, 2013, the Company's management, in coordination with its major shareholder, is finalizing the recapitalization of the Group as its initial step to address this material uncertainty.

The financial statements have been prepared assuming that the Group will continue as a going concern which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities which may result from the outcome of this material uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

- (a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Group and the Parent Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

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

(b) *Presentation of Financial Statements*

The financial statements are prepared in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Parent Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Parent Company operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2012 that is Relevant to the Group*

In 2012, the Group adopted PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*, which is relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2011. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its consolidated financial statements.

(b) *Effective in 2012 that are not Relevant to the Group*

The following amendments to PFRS became effective for the annual periods beginning on or after July 1, 2011 and January 1, 2012, but are not relevant to the Group's consolidated financial statements and the Parent Company's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS
PAS 12 (Amendment)	:	Income Taxes – Deferred Taxes: Recovery

of Underlying Assets

(c) *Early Adoption of PAS 1 (Amendment), Presentation of Financial Statements*

In the preparation of the 2012 financial statements, the Group early adopted the amendment made to PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*, issued by the FRSC as part of the Annual Improvements to PFRS 2009-2011 Cycle, which will be effective for the annual period beginning on or after January 1, 2013. The amendment clarifies that when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements that has a material effect on the information in the statement of financial position (statement of total assets) at the beginning of the preceding period (i.e., opening statement of financial position), it shall present a third statement of financial position (statement of total assets) as at the beginning of that preceding period. Other than disclosures of certain specified information as provided in Note 16, the related notes to the opening statement of financial position (statement of total assets) are no longer required to be presented.

(d) *Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements and the Parent Company's financial statements:

- (i) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;
 - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
 - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

(ii) Consolidation Standards

The Group is currently reviewing the impact on its consolidated financial statements and Parent Company's financial statements of the following consolidation standards which will be effective from January 1, 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Amendment), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Amendment), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on their financial statements.
- (iv) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to assess the impact of the new standard on the Group's financial statements.
- (v) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on their financial statements.

- (vi) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to International Financial Reporting Standard 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the Group's financial statements and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (vii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, only PAS32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments* is relevant to the Group but management does not expect a material impact on the Group's financial statements.

The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

2.3 Basis of Consolidation

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries after the elimination of all intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investment in subsidiaries and non-controlling interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the parent company controls another entity. Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Parent company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss (see Note 2.8).

(b) Transactions with Non-controlling Interests

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

When the Parent Company ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Parent Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Non-controlling interests represent the interests not held by the Parent Company in MAIC.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at the end of every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

Currently, the Group's financial assets are categorized as follows:

(a) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables, Due from Related Parties and Security Deposits included as part of Other Assets in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(b) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are initially recognized at fair value transaction costs and subsequently measured at fair value. Gains and losses from changes in value are recognized in other comprehensive income, net of any income tax effects. When the asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Impairment losses relating to financial assets that are recognized in profit or loss are presented as Impairment Loss in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.5 Investments in an Associate

Associates are entities over which the Parent Company, its subsidiary or the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investments in associates. Goodwill is the excess of the acquisition cost over the fair value of the Group's share of the identifiable net assets of the investee at the date of the acquisition.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against Equity in Net Earnings (Losses) of an Associate account in profit or loss.

Changes resulting from other comprehensive income of the associate recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group as applicable. However, when the Group's share of losses in an associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

2.6 Other Assets

Other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

2.7 Financial Liabilities

Financial liabilities of the Group and the Parent Company, which include accounts payable and accrued expenses (except tax-related payables), and due to related parties, are recognized when the Group and/or the Parent Company becomes a party to the contractual agreements of the instrument. These are recognized initially at their fair values and subsequently measured at amortized cost for maturities beyond one year, less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through payment, cancellation or expiration.

2.8 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business acquisition is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquire at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services and is measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding VAT and trade discounts, if any.

Revenue is recognized to the extent the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group, and the cost incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Dividends* – Revenue is recognized when the Group’s right to receive the payment is established.
- (b) *Professional Fees* – Revenue from rendering of professional services is recognized once the service has been rendered.
- (c) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred.

2.12 Leases - Group as Lessee

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 expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.13 Foreign Currency Transactions and Translations

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

2.14 Segment Reporting

Operating segments, which applies only to the Group's consolidated financial statements, are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee, its chief operating decision-maker (CODM). The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's service lines as disclosed in Note 4, which represent the main services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. Intersegment transfers, if any, are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and
- research costs relating to new business activities.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

2.15 Impairment of Non-financial Assets

The Group's investments in an associate and goodwill and the Parent Company's investments in a subsidiary and an associate are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.8). All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.16 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as through a defined contribution plan.

(a) Post-employment Benefits

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past-service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality government bonds, as published by Philippine Dealing Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in the profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the Past service costs are amortized on a straight-line basis over the vesting period.

(b) Defined Benefit Contribution Plans

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (such as the Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of reporting period are discounted to present value using the effective interest rate.

2.17 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets are to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of comprehensive income. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly to equity are recognized in other comprehensive income or directly to equity.

2.18 Capital Deficiency

Capital stock represents the nominal value of shares that have been issued.

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

Revaluation reserves represent accumulated gains and losses due to the revaluation of AFS financial assets.

Deficit represents all current and prior period results as reported in the profit or loss section of the statement of comprehensive income.

Non-controlling interest pertains to the initial investment and the equity share in the income and losses of the minority stockholders.

2.19 Related Party Relationships and Transactions

Related party transactions are transfer of resources, services or obligations between the Group and its related parties (including transactions between MHI and its subsidiaries), regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with MHI and subsidiaries; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of MHI and subsidiaries that gives them significant influence over MHI and subsidiaries and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.20 Loss Per Share

Basic loss per share is computed by dividing net loss attributable to shareholders of the Parent Company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current year.

Diluted loss per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.21 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets, except the portion that has already been provided with allowance for impairment, are not impaired as at June 30, 2013. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) *Distinction between Operating and Finance Leases*

The Group has entered in a lease agreement as lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgement will result in either overstatement or understatement of assets and liabilities. As at June 30, 2013, management determined that the lease agreement is an operating lease.

(c) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) *Impairment of Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the counterparties and their current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of receivables and the analysis of allowance for impairment on such financial assets are shown in Note 9.

(b) *Fair Value Measurement of AFS Financial Assets*

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of reporting period.

(c) *Determining Recoverable Amounts of Deferred Tax Assets*

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

No deferred tax assets were recognized since the Group's management believes that it will not be able to generate sufficient taxable income within the periods in which these temporary differences can be applied.

(d) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(e) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, 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.

4. SEGMENT REPORTING

4.1 *Business Segments*

For management purposes, the Group is organized into two major business segments, investment banking and investment holding activities. These are also the basis of the Group in reporting its primary segment information.

- (a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.
- (b) *Investment holding* – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

4.2 *Segment Assets and Liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating cash and receivables, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses, and due to related parties.

The business segment information of the Group are as follows:

	2013		
	Investment Banking	Investment Holding	Total
Income:			
Investment income	P 512	67,721	68,233
Others	557	557	557
	1,069	67,721	68,790
Expenses	3,740,181	3,464,398	7,204,579
Operating Loss	P 3,739,112	P 3,396,676	P 7,135,789
Non-controlling interest in Net losses of subsidiary			(1,325,743)
Net Loss			P(5,810,046)
Segment assets	P 7,202,255	P 41,963,698	P 49,165,953
Segment liabilities	P 70,557,537	P 121,982,610	P 192,540,147

	2012		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P 367,059	P -	P 367,059
Investment income	28,604	91,413	120,017
Others	<u>1,551</u>	<u>750,000</u>	<u>751,551</u>
	<u>397,214</u>	<u>841,413</u>	<u>1,238,627</u>
Expenses	<u>4,209,519</u>	<u>3,224,346</u>	<u>7,433,865</u>
Operating Loss	<u>P 3,812,305</u>	<u>P 2,382,933</u>	P 6,195,238
Non-controlling interest in Net losses of subsidiary			<u>(1,351,691)</u>
Net Loss			<u>P 4,843,547</u>
Segment assets	<u>P 11,141,760</u>	<u>P 49,254,499</u>	P 60,396,259
Goodwill			<u>4,814,856</u>
Total assets			<u>P 65,211,115</u>
Segment liabilities	<u>P 67,710,567</u>	<u>P 120,975,801</u>	<u>P 188,686,368</u>
	2011		
	Investment Banking	Others	Total
Income:			
Commission and fees	P 1,720,588	P -	P 1,720,588
Interest income	362,414	1,707	364,121
Other income	<u>1,584</u>	<u>1,501,032</u>	<u>1,502,616</u>
Gross revenues	2,084,586	1,502,739	3,587,325
Expenses	<u>4,808,486</u>	<u>2,157,254</u>	<u>6,965,740</u>
Loss before income tax	(2,723,900)	(654,515)	(3,378,415)
Income tax expense			
Operating loss	<u>(P 2,723,900)</u>	<u>(P 654,515)</u>	<u>(3,378,415)</u>
Non-controlling interest in net losses of subsidiary			<u>965,786</u>
Net loss			<u>(P 2,412,629)</u>
Segment assets	<u>P 186,096,237</u>	<u>P 34,326,109</u>	P 220,422,346
Goodwill			<u>4,814,856</u>
Total assets			<u>P 225,237,202</u>
Segment liabilities	<u>P 46,277,845</u>	<u>P 141,529,121</u>	<u>P 187,806,966</u>

Currently, the Group's operation is concentrated in the Philippines; hence, it has no geographical segment.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to certain financial risks which result from both its operating and investing activities. The Group's risk management is coordinated with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

5.1 Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from the Group's United States (U.S.) dollar-denominated bank deposits and short-term investments.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

5.2 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At June 30, 2013, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.3 Liquidity Risk

The Group sets limit on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected liabilities falling due.

As at June 30, the Group's financial assets and liabilities with their corresponding contractual maturities are shown below.

	Consolidated					
	2013			2012		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 9,982,497	P	P 9,982,497	P 14,163,249	P -	P 14,163,249
Receivables – at gross	147,469	40,518,254	40,665,723	8,455	40,581,248	40,589,703
Due from related parties	2,984,986		2,984,986	2,599,856	-	2,599,856
AFS financial assets		31,293,500	31,293,500	-	31,293,500	31,293,500
	<u>P 13,114,952</u>	<u>P 71,811,754</u>	<u>P 84,926,706</u>	<u>P 16,771,560</u>	<u>P 71,874,748</u>	<u>P 88,646,308</u>
Financial Liabilities:						
Due to related parties	P 189,319,960	P	P 189,319,960	P 185,033,103	P -	P 185,033,103
Accounts payable and accrued expenses (excluding tax-related liabilities)	1,672,061		1,672,061	2,047,003	-	2,047,003
	<u>P 190,992,021</u>	<u>P</u>	<u>P 190,992,021</u>	<u>P 187,080,106</u>	<u>P -</u>	<u>P 187,080,106</u>

	Parent Company					
	2013			2012		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 9,245,739	P	P 9,245,739	P 12,602,959	P -	P 12,602,959
Available-for sale financial assets		31,268,750	31,268,750	-	31,268,750	31,268,750
Loans and receivables (at gross)	147,469	40,518,254	40,665,723	6,322	40,558,946	40,565,268
	<u>P 9,393,208</u>	<u>P 71,787,004</u>	<u>P 81,180,212</u>	<u>P 12,609,281</u>	<u>P 71,827,696</u>	<u>P 84,436,977</u>
Financial Liabilities:						
Due to related parties	P 121,750,526	P	P 121,750,526	P 120,787,809	P -	P 120,787,809
Accounts payable and accrued expenses (excluding tax-related liabilities)	145,314		145,314	370,500	-	370,500
	<u>P 121,895,840</u>	<u>P</u>	<u>P 121,895,840</u>	<u>P 121,158,309</u>	<u>P -</u>	<u>P 121,158,309</u>

Due to the Group's financial condition, related parties have not required immediate payment of the amounts due to them to enable the Group to conduct normal business operations.

5.4 Credit Risk

Credit risk is the risk that counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments from granting receivables to customers including related parties and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

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

	Notes	Consolidated		Parent Company	
		2013	2012	2013	2012
Cash and cash equivalents	7	P 9,982,497	P 14,163,249	P 9,245,739	P 12,602,959
Receivables - net	9	352,723	276,703	352,723	252,268
Due from related parties	13	2,984,986	2,599,856	1,000,000	1,000,000
Security deposits	11	181,456	181,456	-	-
		<u>P 13,501,662</u>	<u>P 17,221,264</u>	<u>P 10,598,462</u>	<u>P 13,855,227</u>

None of the Group's financial assets are secured by collateral or other credit enhancements.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

With respect to credit arising from financial assets of the Group, which comprise cash and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. Also, there are no unimpaired financial assets that are past due as at June 30, 2013 and December 31, 2012.

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by selecting best investment options commensurate with the level of risk. With the current financial condition of the Group, the management is working closely with the BOD and with its major shareholder for a recapitalization of the Group which it will then be able to use in its future investing activities.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, sell assets to reduce debt or capital deficiency or borrow funds from related parties for long-term purposes and working capital requirements.

Relevant information is shown below.

	Consolidated		Parent Company	
	2013	2012	2013	2012
Total liabilities	P192,540,147	P189,018,993	P121,982,610	P 121,619,622
Total capital deficiency	143,374,194	136,238,405	79,018,913	75,622,237

As at June 30, 2013 and December 31, 2012, the Group is not subject to any externally imposed capital requirements.

6.2 Track Record of Registration of Securities

On November 18, 1975, the SEC approved the listing at the PSE of the Parent Company's shares totalling 700,000,000. As at June 30, 2013, there are 684 holders of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed shares closed at P0.30 per share as at June 30, 2013.

The Parent Company has no other securities being offered for trading in any stock exchange. It did not list any other securities since its first listing of its securities.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Note	Consolidated		Parent Company	
		2013	2012	2013	2012
Cash on hand	P	8,000	P 8,000	P -	P -
Cash in banks		920,614	1,066,754	191,856	514,464
Short-term placements		<u>9,053,883</u>	<u>13,088,495</u>	<u>9,053,883</u>	<u>12,088,495</u>
		<u>P 9,982,497</u>	<u>P 14,163,249</u>	<u>P 9,245,739</u>	<u>P 12,602,959</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 60 days and earn annual effective interest ranging from 1% to 1.25% for the second quarter of 2013.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets consisting of shares of stock are summarized below.

	Consolidated		Parent Company	
	2013	2012	2013	2012
Cost:				
Quoted	P 578	P 1,083,578	P -	P -
Not quoted	<u>76,292,533</u>	<u>76,292,533</u>	<u>76,268,750</u>	<u>76,268,750</u>
	76,293,111	77,376,111	76,268,750	76,268,750
Allowance for impairment	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>
	31,293,111	32,376,111	31,268,750	31,268,750
Unrealized fair value gain (loss)	<u>389</u>	<u>(552,511)</u>	<u>-</u>	<u>-</u>
	<u>P 31,293,500</u>	<u>P 31,823,600</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

The investment in unquoted AFS financial assets of the Group as at June 30, 2013 and December 31, 2012 pertains to the Parent Company's investment in Manila Exposition Complex, Inc. representing 18.18% ownership interests (P31,268,750) and investment in I-Mart Corporation representing 10% ownership interests (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business. The fair values of quoted AFS financial assets have been determined directly by reference to published prices in active markets, i.e., the PSE.

9. RECEIVABLES

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Accounts receivable	P 40,665,723	P 40,581,248	P 40,665,723	P 40,558,946
Interest receivable		<u>8,455</u>		<u>6,322</u>
	<u>40,665,723</u>	<u>40,589,703</u>	<u>40,665,723</u>	<u>40,565,268</u>
Allowance for impairment	(<u>40,313,000</u>)	(<u>40,313,000</u>)	(<u>40,313,000</u>)	(<u>40,313,000</u>)
	<u>P 352,723</u>	<u>P 276,703</u>	<u>P 352,723</u>	<u>P 252,268</u>

All of the receivables have been reviewed for indications of impairment. Based on such review, no additional allowance for impairment loss on receivables was required to be provided in both years.

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	<u>% Interest Held</u>	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Associate					
EIB	10.31%	P 860,659,849	P 860,659,849	P -	P -
	2.45%	-	-	478,380,834	478,380,834
Subsidiary					
MAIC	64.54%	<u>-</u>	<u>-</u>	<u>199,995,929</u>	<u>199,995,929</u>
		<u>860,659,849</u>	<u>860,659,849</u>	<u>678,376,763</u>	<u>678,376,763</u>
Allowance for impairment		(<u>860,659,849</u>)	(<u>860,659,849</u>)	(<u>678,376,763</u>)	(<u>678,376,763</u>)
		<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>

EIB is considered an associate because the Group has significant influence over EIB; certain members of the Group's BOD are also members of the BOD of EIB. No quoted market values were available for the investment in EIB since May 15, 2009 as EIB shares were suspended for trading. On July 30, 2010, the BOD of EIB approved the sale of all of EIB's assets to the Unibank, in consideration of the Unibank's assumption of all of EIB's liabilities, including its deposit liabilities (see also Note 1.2). On April 13, 2011, EIB received the approval by the Philippine Deposit Insurance Corporation (PDIC), subject to definitive agreements and certain closing conditions, which include the final approval by the BSP. As a result of EIB's sale of assets and transfer of liabilities to the Unibank, EIB will cease to operate as a commercial bank. In view of these developments, the management of the Group believes that it may no longer recover its investment in EIB because of the eminent final approval by the regulators of the sale; hence, the Group decided to provide full allowance for impairment on the investment's carrying value of P148.7 million in 2011.

On April 26, 2012, the Monetary Board of the BSP decided to prohibit EIB from doing business in the Philippines and placed its assets and affairs under receivership pursuant to Section 30 of Republic Act 7653, otherwise known as the *The New Central Bank Act*. PDIC was designated as Receiver of EIB and took over EIB on April 27, 2012. Consequently, the sale of EIB's assets did not materialize.

EIB has no available financial information for the period ended June 30, 2013 as it is still undergoing receivership.

11. OTHER ASSETS

This account consists of the following:

	Notes	Consolidated		Parent Company	
		2013	2012	2013	2012
Goodwill		P	P 4,814,856	P	P -
Allowance for impairment		((4,814,856)		-
			-		
Creditable withholding tax			3,104,911		-
Input taxes – net			978,374	978,374	873,408
Advance rentals	13.1		203,231		-
Security deposits	13.1		181,456		-
Miscellaneous			84,275		-
			<u>P 4,552,247</u>	<u>P 978,374</u>	<u>P 873,408</u>
			<u>P 4,447,280</u>		

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. In relation to the management's decision to fully impair the Parent Company's investment in MAIC, the Group also retroactively recognized full valuation allowance on its goodwill.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Consolidated		Parent Company	
		2013	2012	2013	2012
Accounts payable		P 1,457,386	P 1,462,021	P -	P -
Accrued expenses		-	584,982	-	370,500
Withholding tax payable		214,675	94,553	145,314	78,336
		<u>P 1,672,061</u>	<u>P 2,141,556</u>	<u>P 145,314</u>	<u>P 448,836</u>

13. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company, stockholders, subsidiaries, associate, other entities through common ownership and/or with interlocking directors and key management personnel as described in the succeeding pages.

13.1 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rental charged to operations amounted to P765,692 in the second quarter of 2013, 2012 and 2011, for the Group, and P156,000 in each of the quarters for the Parent Company.

Security deposits and advance rentals, which shall be applied against the last two months of the lease term, totalling P384,687 as at June 30, 2013 and December 31, 2012 are included as part of Other Assets in the statements of financial position (see Note 11).

13.2 Due from Related Parties

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Solid Payback Holdings, Inc.	P 491,874	P 475,606	P	P -
Bountiful Bancresources Holdings, Inc.	468,924	452,656		-
Cardinal Bancresources, Inc.	347,794	331,526		-
Lead Bancfund Corp.	473,316	350,069		-
Apex Bancrights Corp.	472,166	349,018		-
Goldwin Bancshares, Inc.	347,612	331,344		-
CTC Entrepreneurs Corp.	59,487	276,600		-
Keytrend Technologies Phils.	-	33,037		-
MAIC			1,000,000	1,000,000
Others	<u>323,813</u>	<u>-</u>		
	<u>P 2,984,986</u>	<u>P 2,599,856</u>	<u>P 1,000,000</u>	<u>P 1,000,000</u>

These entities are related parties of the Group by virtue of having interlocking directors and common executive officers. There was no impairment loss recognized with respect to amounts due from related parties based on management's assessment.

The Group and the Parent Company grant advances to these related parties for working capital purposes. The advances are noninterest-bearing, unsecured and repayable in cash within 12 months from the end of the reporting period, and presented as Due from Related Parties in the statements of financial position.

13.3 Due to Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Lippo China Resources (LCR)	P -	P 64,245,294	P -	P -
Classic Tycoon Investment, Ltd. (CTIL)	29,884,700	29,884,700	29,884,700	29,884,700
Fair Navigator, Ltd. (FNL)	29,884,700	29,884,700	29,884,700	29,884,700
Citinvest Asia Limited (CAL)	122,075,420	57,831,126	57,831,126	57,831,126
LSI	3,150,000	3,159,463	3,150,000	3,159,463
CPIL	4,000,000	27,820	1,000,000	27,820
Others	325,140	-	-	-
	<u>P 189,319,960</u>	<u>P 185,033,103</u>	<u>P 121,750,526</u>	<u>P 120,787,809</u>

In March 2013, with the conformity of MAIC, LCR assigned its receivables due from MAIC amounting to P68,351,263 to CAL.

Due to related parties pertain to noninterest-bearing, unsecured cash advances from the foregoing related parties for working capital requirements and other purposes. The advances are generally payable in cash upon demand.

14. EMPLOYEE BENEFITS

Post-employment Defined Benefit

The Group maintains a non-contributory retirement plan that is being administered by a trustee bank covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The latest actuarial valuation report covers the year ended December 31, 2012.

15. TAXES

The breakdown of the Group's NOLCO as at June 30, 2013, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below and in the succeeding page.

Year	Original Amount	Consolidated		
		Expired Balance	Remaining Balance	Valid Until
2012	P 13,523,547	P -	P 13,523,547	2015
2011	10,420,193	-	10,420,193	2014
2010	7,847,822	-	7,847,822	2013
2009	<u>23,342,231</u>	<u>23,342,231</u>	<u>-</u>	2012
	<u>P 55,133,793</u>	<u>P 23,342,231</u>	<u>P 31,791,562</u>	

Parent Company					
Year		Original Amount	Expired Balance	Remaining Balance	Valid Until
2012	P	5,995,697	P -	P 5,995,697	2015
2011		4,632,872	-	4,632,872	2014
2010		3,055,335	-	3,055,335	2013
2009		<u>3,538,886</u>	<u>3,538,886</u>	<u>-</u>	2012
	P	<u>17,222,790</u>	<u>3,538,886</u>	<u>13,683,904</u>	

No NOLCO was applied against taxable income by the Group and the Parent Company in 2013, 2012 and 2011.

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. In 2013, no MCIT and RCIT was reported since the Group does not have taxable revenues and other income during the year.

Details of the Group's MCIT as at June 30, 2013, which can be applied against future RCIT within three years from the year MCIT was incurred, is shown below.

Consolidated					
Year		Original Amount	Expired Balance	Remaining Balance	Valid Until
2011	P	2,446	P -	P 2,446	2014
2010		15,320	-	15,320	2013
2009		<u>103,163</u>	<u>103,163</u>	<u>-</u>	2012
	P	<u>120,929</u>	<u>103,163</u>	<u>17,766</u>	

Parent Company					
Year		Original Amount	Expired Balance	Remaining Balance	Valid Until
2011	P	30	P -	P 30	2014
2010		<u>15,320</u>	<u>-</u>	<u>15,320</u>	2013
	P	<u>15,350</u>	<u>-</u>	<u>15,350</u>	

No MCIT was applied against RCIT by each entity in the Group in 2012 and 2011.

16. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended June 30, 2013, 2012 and 2011 is computed as follows:

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
Net loss attributable to the shareholders of Parent Company	P 5,810,046	P 4,843,547	P 2,412,629	P 3,396,676	P 2,382,933	P 654,514
Divided by the weighted average number of outstanding shares	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>
Basic and diluted loss per share	<u>P 0.0083</u>	<u>P 0.0069</u>	<u>P 0.0034</u>	<u>P 0.0048</u>	<u>P 0.0034</u>	<u>P 0.0009</u>

The Group has no dilutive potential common shares as at June 30, 2013 and December 31, 2012.

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As at June 30, 2013, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.