



# MEDCO HOLDINGS, INC.

November 6, 2012

**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 September 30, 2012**

Gentlemen:

In compliance with the Philippine Stock Exchange (“PSE”) Disclosure Rules, please find attached the SEC Form 17-Q for the period ended September 30, 2012.

We trust that you will find the foregoing in order.

Very truly yours,

**MA. LOURDES B. BATHAN**

Corporate Information Officer

# COVER SHEET

3	9	6	5	2							
---	---	---	---	---	--	--	--	--	--	--	--

SEC Registration Number

M	E	D	C	O	H	O	L	D	I	N	G	S	,	I	N	C	.	A	N	D	S	U	B	S	I	D	I	A	R	Y	

(Company's Full Name)

3	1	s	t	F	l	o	o	r	,	R	u	f	i	n	o	P	a	c	i	f	i	c	T	o	w	e	r	,			
6	7	8	4	A	y	a	l	a	A	v	e	n	u	e	,	M	a	k	a	t	i	C	i	t	y						

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

<b>Dionisio E. Carpio, Jr.</b>
--------------------------------

(Contact Person)

<b>811-0465</b>
-----------------

(Company Telephone Number)

0	9	3	0
---	---	---	---

Month      Day  
2012

1	7	-	Q
---	---	---	---

(Form Type)

--	--	--	--

Month      Day  
(Annual Meeting)

--

(Secondary License Type, If Applicable)

--

Dept. Requiring this Doc.

--

Amended Articles Number/Section

--

Total No. of Stockholders

<b>Total Amount of Borrowings</b>	

Domestic

Foreign

-----  
To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--	--	--

File Number

\_\_\_\_\_  
LCU

--	--	--	--	--	--	--	--	--	--	--	--

Document ID

\_\_\_\_\_  
Cashier

STAMPS	
--------	--

Remarks: Please use BLACK ink for scanning purposes.

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 September 2012**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc. ("Medco")**  
**(formerly Mindanao Exploration and Development Corp.)**  
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**  
Province, country or other jurisdiction of incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code
7. **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>
<b>Common</b>	<b>700,000,000 shares</b>

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.

#### **2012- Third Quarter Financial Highlights**

Total consolidated revenues for the third quarter of 2012 decreased by 72% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (59%), fees and other commission (29%), and interest income from short-term placement (12%). 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 third quarter of 2012 increased by 3.8% compared to last year's quarter. The increase was mainly due to the unrealized foreign exchange loss amounting to P0.60 million that resulted from the restatement of the dollar deposit placement. The expenses for this quarter were composed of salaries and wages (49%), occupancy (11%), representation (10%), unrealised foreign exchange loss (6%), loss on sale of available for sale securities (5%), professional fees (4%), and other expenses (15%).

As to the balance sheet as at the end of this quarter, total assets decreased by 13.7% 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 September 30, 2012 consisted of P18.7 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- Third Quarter Financial Highlights**

Consolidated revenues for the third quarter of 2011 increased by approximately 11% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of fees and other commissions (56%), dividend income (32%), and interest income from short-term placements (11%).

Compared to the previous year's third 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 96% compared to last year's third 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 and collection of advances made to related parties. On the liabilities side, accounts payable and accrued expenses likewise decreased by 28% 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 September 30, 2011 consisted of P31 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.

**2010- Third Quarter Financial Highlights**

Consolidated revenues for the third quarter of 2010 decreased by 26% compared to the prior year's third quarter figure. During the quarter under review, revenues consisted of fees and other commissions (62%), interest income from short-term placements (18%), and other income (20%).

The decline in consolidated revenues was mainly due to the 29% decrease in interest income from short-term placements. Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased in the third quarter of 2010 versus the rates prevailing in last year's third quarter.

On the other hand, consolidated expenses increased significantly by 2061% compared to last year's third quarter. This was the result of the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. amounting to P218 million. The expenses were composed mainly of impairment loss in investment (95%), salaries & wages (2%), representation & entertainment (0.9%), professional fees (0.6%) and other expenses (1.5%).

In the balance sheet as at the end of this quarter, total assets declined significantly by 50% as compared to as at the end of last year. The decline was mainly due to the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. There was also a significant decrease of 79% in the loans and receivables account which was a result of the collection of accrued interest from deposit placements. On the liabilities side, accounts payable and accrued expenses decreased by 15% due to the payment of liabilities accrued on December 31, 2009.

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. In view of the booking of the aforementioned impairment loss provision by the Company's subsidiary that has resulted in the said subsidiary's inability to meet the prescribed capital requirement for an investment house, the subsidiary has filed a request with the Commission for the cancellation of its investment house license. Despite of this development, the Company does not 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 September 30, 2010 consisted of P40.7 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

**Third Quarter Financial Soundness Indicators  
September 30, 2012, 2011 and 2010**

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2012	2011	2010	2012	2011	2010
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-72.38%	10.72%	-25.90%	-86.71%	-8.08%	-39.75%
2. Net Income Growth*	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	NA	-97.18%	NA%	NA	-98.23%	NA
3. Return on Equity**	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	NA	-10.67%	-94.14%	NA	-227.54%	-215.06%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.10.x	0.17x	0.22x	0.12x	10.13x	7.21x
5. Debt-to-Equity-Ratio**	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	NA	5.27x	4.48x	NA	0.95x	0.94x

\* Losses

\*\* Capital Deficiency in 2012

Note:

Y1= Current year

Y0= Previous year



**MEDCO HOLDINGS, INC. AND SUBSIDIARY**

**Financial Statements  
September 30, 2012, 2011, and 2010**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2012 AND DECEMBER 31, 2011**

		<u>2012</u>	<u>(Audited)</u> <u>2011</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents (Note 7)	P	18,746,195	P 27,995,818
Available-for-Sale Investments (Note 8)		31,293,500	31,823,600
Loans and receivables - net (Note 9)		40,250	255,173
Due from related parties (Note 13)		2,666,964	2,762,344
Equity Investment- net (Note 10)		-	-
Other Assets (Note 11)		<u>9,350,518</u>	<u>9,099,662</u>
<b>TOTAL ASSETS</b>	<b>P</b>	<b><u>62,097,427</u></b>	<b><u>P 71,936,597</u></b>

**LIABILITIES AND EQUITY**

**LIABILITIES**

Accounts Payable and Accrued Expenses (Note 12)	P	60,057,572	P 2,431,661
Due to related parties (Note 13)		126,927,218	184,795,072
Retirement benefit obligation		<u>1,655,245</u>	<u>2,373,094</u>
		<u>188,640,035</u>	<u>189,599,827</u>

**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		251	(356,612)
Deficit		<u>(831,254,243)</u>	<u>(823,964,320)</u>
Total equity attributable to equityholders of the parent		(105,755,080)	(98,822,020)
Minority interest		<u>(20,787,528)</u>	<u>(18,841,210)</u>
		<u>(126,542,608)</u>	<u>(117,663,230)</u>

<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P</b>	<b><u>62,097,427</u></b>	<b><u>P 71,936,597</u></b>
-------------------------------------	----------	--------------------------	----------------------------

**MEDCO HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 and 2011**

	JULY TO SEPTEMBER		JANUARY TO SEPTEMBER	
	2012	2011	2012	2011
<b>REVENUES</b>	P 235,487	P 1,039,393	P 1,277,786	P 4,626,718
<b>EXPENSES</b>	<u>6,536,874</u>	<u>3,185,651</u>	<u>10,540,380</u>	<u>10,151,391</u>
<b>LOSS BEFORE MINORITY</b>				
<b>SHARE IN NET INCOME</b>	(6,301,387)	(2,146,258)	(9,262,594)	(5,524,673)
<b>MINORITY SHARE IN NET INCOME</b>	<u>(1,192,044)</u>	<u>(428,691)</u>	<u>(1,972,670)</u>	<u>(1,394,477)</u>
<b>LOSS BEFORE FINAL TAX</b>	(5,109,343)	(1,717,567)	(7,289,924)	(4,130,196)
<b>LESS: PROVISION FOR TAX</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET LOSS</b>	(5,109,343)	(1,717,567)	(7,289,924)	(4,130,196)
<b>DEFICIT AT BEGINNING</b>				
<b>OF YEAR/QUARTER</b>	<u>(826,144,900)</u>	<u>(722,806,155)</u>	<u>(823,964,319)</u>	<u>(720,393,526)</u>
<b>DEFICIT AT END OF QUARTER</b>	P <u><u>(831,254,243)</u></u>	P <u><u>(724,523,722)</u></u>	P <u><u>(831,254,243)</u></u>	P <u><u>(724,523,722)</u></u>
<b>LOSS PER SHARE</b>	P <u><u>(0.0073)</u></u>	P <u><u>(0.0025)</u></u>	P <u><u>(0.0104)</u></u>	P <u><u>(0.0059)</u></u>

**MEDCO HOLDINGS, INC. AND  
SUBSIDIARY  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012, 2011, and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital Stock- P1par value			
Authorized, issued and outstanding- 700,000,000	P <u>700,000,000</u>	P <u>700,000,000</u>	P <u>700,000,000</u>
Additional Paid-In Capital	<u>25,498,912</u>	<u>25,498,912</u>	<u>25,498,912</u>
Fair value losses in available-for-sale financial assets	<u>251</u>	<u>(376,801)</u>	<u>(408,353)</u>
Deficit			
Balance, beginning of year	(823,964,319)	(720,393,526)	(573,761,154)
Net loss	<u>(7,289,924)</u>	<u>(4,130,196)</u>	<u>(146,260,693)</u>
Balance, end of quarter	<u>(831,254,243)</u>	<u>(724,523,722)</u>	<u>(720,021,847)</u>
Total equity attributable to equityholders of the parent	(105,755,080)	598,389	5,068,712
Minority interest	<u>(20,787,528)</u>	<u>34,685,589</u>	<u>37,033,739</u>
Total Equity	P <u><u>(126,542,608)</u></u>	P <u><u>35,283,978</u></u>	P <u><u>42,102,451</u></u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012, 2011, AND 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss before tax and minority interest	P (9,262,594)	P (5,524,673)	P (224,941,470)
Adjustments for:			
Depreciation	-	1,509	13,585
Interest income	(158,621)	(524,641)	(765,506)
Interest expense	204	3,129	5,150
Unrealized foreign exchange loss	599,320	129,107	872,111
Impairment loss on investment	-	-	218,135,140
Decrease(increase) in:			
Receivables	214,923	206,142	291,033
Other assets	(250,856)	(240,245)	(612,798)
Decrease in accounts payable and accrued expenses	<u>(691,496)</u>	<u>(1,436,639)</u>	<u>(708,180)</u>
Cash generated from operations	(9,549,120)	(7,386,311)	(7,710,935)
Cash paid for income taxes	-	-	-
Net Cash Used in Operating Activities	<u>(9,549,120)</u>	<u>(7,386,311)</u>	<u>(7,710,935)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	158,621	524,641	765,506
Decrease in available-for-sale investments	886,963	-	-
Net Cash Provided by Investing Activities	<u>1,045,584</u>	<u>524,641</u>	<u>765,506</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid	(204)	(3,129)	(5,150)
Increase in other payable	57,625,911	-	-
Net increase (decrease) of due from/to related parties	<u>(57,772,474)</u>	<u>(850,976)</u>	<u>(1,197,133)</u>
Net Cash Used in Financing Activities	<u>(146,767)</u>	<u>(854,105)</u>	<u>(1,202,283)</u>
<b>EFFECTS OF FOREIGN EXCHANGE REVALUATION</b>			
OF CASH AND CASH EQUIVALENTS	<u>(599,320)</u>	<u>(129,107)</u>	<u>(872,111)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,249,623)	(7,844,882)	(9,019,823)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>27,995,818</u>	<u>39,053,962</u>	<u>49,792,328</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER	P <u>18,746,195</u>	P <u>31,209,080</u>	P <u>40,772,505</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

***1.1 General***

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 as a holding company. Its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). Collectively, MHI and its subsidiaries are referred herein as the Group.

MHI is 46.04% owned by Citivest Asia Limited (CAL), which is a wholly owned subsidiary of Lippo China Resources Limited (LCR or the ultimate parent). The ultimate parent is presently engaged in holding of investments and is also a publicly-listed company via the Hong Kong Stock Exchange.

The Group holds a 10.31% interest in Export and Industry Bank, Inc. (EIB) while the parent company holds a 64.54% interest in Medco Asia Investment Corporation (MAIC) and a 2.45% interest in EIB. MAIC was registered with the SEC on April 7, 1995 to engage primarily in operating an investment house. MAIC is not engaged in any underwriting or any investment house related activities and its main source of revenues in 2012 and 2011 pertains only to professional or management services rendered to related parties.

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI) (MAIC, OHI and SHI, altogether are referred to herein as the subsidiaries). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations as of September 30, 2012.

The registered office of the parent company and its subsidiaries is located at the 31<sup>st</sup> Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

## ***1.2 Status of Operations***

The Group incurred net losses of P7,289,924 in 2012, P4,130,196 in 2011 and P146,260,693 in 2010. The Group reported a capital deficiency of P126,542,608 and P117,663,230 respectively, as of September 30, 2012 and December 31, 2011 as a consequence of such recurring losses. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. As at September 30, 2012, the Company's management, in coordination with CAL, is considering a recapitalization of the Group as its initial step to address this material uncertainty. In the meantime, to ensure that the Group can continue to operate as a going concern entity, CAL has committed to continue providing financial support to the Group until such time its financial condition and performance improves and it becomes self-sustaining again.

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.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense, except for the recognition of impairment losses on the parent company's investment in subsidiary in the parent company financial statements and recognition of impairment losses on goodwill in the consolidated financial statements. 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 2011 that are Relevant to the Group*

In 2011, the Group adopted the following amendments and annual improvements to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
Philippine Interpretations		
International Financial		
Reporting Interpretations		
Committee (IFRIC) 14		
(Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of the amended standards.



- (i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Group's disclosures of related parties in its financial statements.
- (ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.
- (iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

The adoption of the interpretation did not have a material effect on the Group's financial statements as it did not extinguish financial liabilities through equity swap during the year.

(iii) 2010 Annual Improvements to PFRS. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements.

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group Company's other comprehensive income only includes fair value changes on available-for-sale (AFS) financial assets, the Group has elected to continue presenting each item of other comprehensive income in the statement of changes in equity.
- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Group already provides adequate information in its financial statements in compliance with the disclosure requirements.

*Effective in 2011 that are not Relevant to the Group*

The following amendments and improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2011 but are not relevant to the Group's financial statements:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
PFRS 1 (Amendments)	:	First-Time Adoption of PFRS – Limited Exemption
2010 Annual Improvements PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates

PAS 28 (Amendment)	:	Investments in Associate
PAS 31 (Amendment)	:	Interests in Joint Ventures
PAS 34 (Amendment)	:	Interim Financial Reporting
PFRS 1 (Amendment)	:	First Time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combination
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value of Award Credits

(c) *Effective Subsequent to 2011 but not Adopted Early*

There are new and amended PFRS that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from 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 does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its financial statements.

PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter 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 payments 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.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Group and is committed to conduct a comprehensive study of the potential impact of this standard before its effectivity to assess the impact of all changes.

- (iii) 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. The Group is yet to assess the impact of this new standard.
- (iv) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since the Group's other comprehensive income, which pertains to unrealized fair value gains and losses on available-for-sale (AFS) financial assets, can be reclassified to profit or loss when specified conditions are met.
- (v) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment 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 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 them.

Currently, the Group is using the corridor approach and the unrecognized actuarial gains as of December 31, 2011 amounted to P1.4 million for the Group and P0.99 million for the parent company which will be retrospectively recognized as gains in other comprehensive income in 2013.

(vi) Consolidation Standards

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). 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*.
- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). 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* (effective from January 1, 2013). 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.

The Group is currently reviewing the impact of the above consolidation standards on its financial statements in time for its adoption in 2015.

### **2.3 Basis of Consolidation**

The Group obtains and exercises control through voting rights. The Group's financial statements comprise the accounts of the parent company and its subsidiaries as disclosed in Note 1.1 after the elimination of material 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 and Business Combination*

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.

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 income.

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. As disclosed in Note 2.1(a), the Group did not recognize impairment losses on its goodwill.

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

*(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 in 2011 and 2010 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 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 period 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.

The foregoing categories of financial instruments that are relevant to the Group are more fully described below.

*(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.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables and Due from Related Parties 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*

These include 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 plus transaction costs and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss 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 loss is 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 recognized on financial assets are presented under 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 on 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 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 Financial Liabilities***

Financial liabilities of the Group include accounts payable and accrued expenses (except tax related payables) and due to related parties which are measured at amortized cost using the effective interest method.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the statement of comprehensive income under the caption Interest and Bank Charges.

Accounts payable and accrued expenses and due to related parties are recognized initially at their fair value and subsequently measured at amortized cost 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.

## ***2.6 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.

## ***2.7 Equity (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 includes 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.

## ***2.8 Related Party 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. This includes: (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.

## ***2.9 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. 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 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.

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

### **2.10 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) *Professional fees* – Revenue from professional services provided to subsidiaries of EIB is recognized once the service has been rendered.
- (b) *Dividends* – Revenue is recognized when the Group's right to receive the payment is established.
- (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.

### **2.11 Leases**

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.

### **2.12 Foreign Currency Transactions**

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.

### ***2.13 Impairment of Non-financial Assets***

The Group's investments in subsidiaries and associate and goodwill are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.3). 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.

### ***2.14 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 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 corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

### ***2.15 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 period.

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

### ***2.16 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 provided, 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.

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.

### ***2.17 Events After 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 are not impaired as of September 30, 2012 and December 31, 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

#### ***(b) Operating and Finance Leases***

The Group has entered in a lease agreement as lessee. Critical 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.



(c) *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 2.6 and relevant disclosures are presented in Note 17.

**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) *Allowance for Impairment of Receivables*

Adequate allowance is made 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. Allowance for impairment amounted to P40.3 million as of September 30, 2012 and December 31, 2011. Based on the recent evaluation of information and circumstances affecting the Group's receivables as presented in Note 9, management concluded that no additional allowance was necessary as of September 30, 2012.

(b) *Fair Value 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) *Recoverability 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.

In September 2012 and December 2011, , the Group did not recognize net deferred tax assets since management does not anticipate sufficient taxable profits yet for it to be fully utilized in the succeeding periods.

(d) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. 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.

Group recognized a 100% impairment loss on the remaining carrying value of its investment in EIB as of December 31, 2012. It has already recognized a substantial amount in prior years.

(e) *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.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 14.2.

## 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 as of and for the quarters ended September 30, 2012, 2011 and 2010 follows:

	<b>2012</b>		
	<b>Investment Banking</b>	<b>Investment Holding</b>	<b>Total</b>
Income:			
Professional fees	P 367,059	P -	P 367,059
Investment income	45,976	112,645	158,621
Others	<u>2,106</u>	<u>750,000</u>	<u>752,106</u>
	<u>415,141</u>	<u>862,645</u>	<u>1,277,786</u>
Expenses	<u>5,978,853</u>	<u>4,561,527</u>	<u>10,540,380</u>
Operating Loss	<u>P 5,563,712</u>	<u>P 3,698,882</u>	P 9,262,594
Non-controlling interest in Net losses of subsidiary			<u>(1,972,670)</u>
Net Loss			<u>P 7,289,924</u>
Segment assets	<u>P 9,377,310</u>	<u>P 47,905,261</u>	P 57,282,571
Goodwill			<u>4,814,856</u>
Total assets			<u>P 62,097,427</u>
Segment liabilities	<u>P 67,694,521</u>	<u>P 120,942,514</u>	<u>P 188,640,035</u>
	<b>2011</b>		
	<b>Investment Banking</b>	<b>Others</b>	<b>Total</b>
Income:			
Commission and fees	P 2,580,882	P -	P 2,580,882
Interest income	522,072	2,569	524,641
Other income	<u>19,694</u>	<u>1,501,501</u>	<u>1,521,195</u>
Gross revenues	3,122,648	1,504,070	4,626,718
Expenses	<u>7,055,628</u>	<u>3,095,763</u>	<u>10,151,391</u>
Loss before income tax	( 3,932,980 )	( 1,591,693 )	( 5,524,673 )
Income tax expense			
Operating loss	<u>(P 3,932,980)</u>	<u>(P 1,591,693)</u>	( 5,524,673 )
Non-controlling interest in net losses of subsidiary			<u>1,394,477</u>
Net loss			<u>(P 4,130,196)</u>
Segment assets	<u>P 183,422,842</u>	<u>P 32,889,358</u>	P 216,312,200
Goodwill			<u>4,814,856</u>
Total assets			<u>P 221,127,056</u>
Segment liabilities	<u>P 45,783,511</u>	<u>P 140,059,567</u>	<u>P 185,843,078</u>

	<b>2010</b>		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
Income:			
Commission and fees	P2,580,882	-	P2,580,882
Interest income	763,971	1,535	765,506
Other income	<u>52,315</u>	<u>780,158</u>	<u>832,473</u>
Gross revenues	3,397,168	781,693	4,178,861
Expenses	<u>226,218,124</u>	<u>2,902,207</u>	<u>229,120,331</u>
Operating loss	(P 222,820,956)	(P 2,120,514)	( 224,941,470)
Minority interest in net losses of subsidiary			<u>(78,680,777)</u>
Net loss			<u>(P 146,260,693)</u>
Segment assets	<u>P 192,516,327</u>	<u>P 33,311,756</u>	P 225,828,083
Goodwill			<u>4,814,856</u>
Total assets			<u>P 230,642,939</u>
Segment liabilities	<u>P 46,175,137</u>	<u>P 142,365,351</u>	<u>P 188,540,488</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. The Group also holds U.S. dollar-denominated 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, 2012 and December 31, 2011, 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 September 30, the Group's financial assets and liabilities with their corresponding contractual maturities are shown below.

	Consolidated					
	2012			2011		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Assets:</b>						
Cash and cash equivalents	P 18,746,195	P	P 18,746,195	P 27,995,818	P -	P 27,995,818
Available-for sale financial assets		31,293,500	31,293,500	-	31,823,600	31,823,600
Loans and receivables (at gross)	40,250	40,313,000	40,353,250	29,203	40,538,970	40,568,173
	<u>P 18,786,445</u>	<u>P 71,606,500</u>	<u>P 90,392,945</u>	<u>P 28,025,021</u>	<u>P 72,362,570</u>	<u>P 100,387,591</u>
<b>Financial Liabilities:</b>						
Due to related parties	P 126,927,218	P	P 126,927,218	P 184,795,072	P -	P 184,795,072
Accounts payable and accrued expenses	60,057,572		60,057,572	2,310,109	-	2,310,109
	<u>P 186,984,790</u>	<u>P</u>	<u>P 186,984,790</u>	<u>P 187,105,181</u>	<u>P -</u>	<u>P 187,105,181</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 a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by 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.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statement of financial position, as summarized below.

	Notes	Consolidated		Parent Company	
		2012	2011	2012	2011
Cash	7	P 18,746,195	P 27,995,818	P 15,692,322	P 23,448,442
Receivables	9	40,250	255,173	40,250	44,557
Due from related parties	13	2,666,964	2,762,344	-	-
Other assets	11	384,687	384,687	-	-
		<u>P 21,838,096</u>	<u>P 31,398,022</u>	<u>P 15,732,572</u>	<u>P 23,492,999</u>

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. There are no significant past due financial assets.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

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.

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

## 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 for a potential recapitalization of the Group which it will then be able to use in its future investing activities (see Note 1.2).

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.

## 7. CASH AND CASH EQUIVALENTS

	Note	Consolidated		Parent Company	
		2012	2011	2012	2011
Cash on hand		P 8,000	P 8,000	P -	P -
Cash in banks	13.4	957,467	2,458,376	628,966	415,300
Short-term placements		<u>17,780,728</u>	<u>25,529,442</u>	<u>15,063,356</u>	<u>23,033,142</u>
		<u>P 18,746,195</u>	<u>P 27,995,818</u>	<u>P 15,692,322</u>	<u>P 23,448,442</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consisting of shares of stock are summarized below.

	Consolidated		Parent Company	
	2012	2011	2012	2011
Cost				
Quoted	P 967	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>
	76,293,500	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>
	31,293,500	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	<u>-</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 available-for-sale financial assets of the Group as of December 31, 2011 and 2010 pertains to the 18.18% investment in Manila Exposition Complex, Inc. (P31,268,750) and 10% investment in I-Mart Corporation (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 available-for-sale 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:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Accounts receivable	P 40,353,250	P 40,538,970	P 40,353,250	P 40,335,736
Interest receivable	<u>-</u>	<u>29,203</u>	<u>-</u>	<u>21,821</u>
	40,353,250	40,568,173	40,353,250	40,357,557
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 40,250</u>	<u>P 255,173</u>	<u>P 40,250</u>	<u>P 44,557</u>

The net carrying amounts of the above financial assets represent a reasonable approximation of their fair values due to their short duration.

All of the receivables have been reviewed for indications of impairment and based on management assessment, no additional allowance for impairment loss on receivables was required to be provided in September 2012 and December 2011.

## 10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Associate					
EIB	10.31%	P 860,659,849	P 860,659,849	-	-
	2.45%	-	-	<b>P 478,380,834</b>	P 478,380,834
Subsidiary					
MAIC	64.54%	-	-	<b>199,995,929</b>	199,995,929
		860,659,849	860,659,849	<b>678,376,763</b>	678,376,763
Allowance for impairment		<u>(860,659,849)</u>	<u>( 860,659,849)</u>	<u>( 610,090,942)</u>	<u>( 610,090,942)</u>
		<b>P -</b>	<b>P -</b>	<b>P 68,285,821</b>	<b>P 68,285,821</b>

The net carrying value of the parent company's investments at the end of 2011 and 2010 pertain to MAIC.

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 BDO Unibank, Inc. (BDO Unibank), in consideration of BDO'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, subject to definitive agreements and certain closing conditions, which include the final approval by the Bangko Sentral ng Pilipinas. As a result of EIB's sale of assets and transfer of liabilities to BDO, EIB will cease to operate as a commercial bank.

In view of these developments in 2011, the management of the Group believes that it may no longer recover its investment in EIB; hence, decided to provide full allowance for impairment on the investment's carrying value of P148,746,260. Accordingly, an impairment loss of P148,746,260 is recognized in 2011, in addition to impairment losses already recognized in 2010 and 2009 amounting to P218,135,140.



## 11. OTHER ASSETS

This account consists of the following:

	Notes	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable withholding tax		3,104,911	3,049,852	-	-
Security deposits	13.1	384,687	384,687	-	-
Miscellaneous	19.1	<u>1,046,064</u>	<u>850,267</u>	<u>858,046</u>	<u>766,142</u>
		<u>P 9,350,518</u>	<u>P 9,099,662</u>	<u>P 858,046</u>	<u>P 766,142</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. As of September 30, 2012 and December 31, 2011 no impairment loss was recognized by the Group.

## 12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Accounts payable		P 1,536,805	P 1,541,750	P -	P -
Rent payable	13.1	133,299	133,299	-	-
Withholding tax payable		155,077	114,544	85,281	67,944
Percentage tax payable		-	6,977	-	-
Income tax payable			30	-	30
Accrued and other payable		<u>58,232,391</u>	<u>635,061</u>	<u>59,769,400</u>	<u>-</u>
		<u>P 60,057,572</u>	<u>P 2,431,661</u>	<u>P 59,854,681</u>	<u>P 360,296</u>

The carrying amount of accounts payable and accrued expenses is a reasonable approximation of fair value.

## 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 sections.

### 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 P1,148,538 for the third quarter ended September 30, 2012, 2011 and 2010 for the Group, and P234,000 in each of the quarters presented for the parent company. These are included as part Occupancy in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 on September 30, 2012 and December 31, 2011 are included as part of Other Assets in the statements of financial position (see Note 11). Outstanding payable arising from these transactions amounted to P133,299 for the Group as of September 30, 2012 and December 31, 2011 (nil for parent company) and is presented as Rent payable under Accounts Payable and Accrued Expenses in the statements of financial position (see Note 12).

### 13.2 Due from Related Parties

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Solid Payback Holdings, Inc.	P 475,106	P 452,454	P -	P -
Bountiful Bancresources Holdings, Inc.	452,156	429,504	-	-
Lippo Securities, Inc. (LSI)		333,458	-	-
Lead Bancfund Corp.	349,569	326,916	-	-
Apex Bancrights Corp.	348,518	325,866	-	-
Goldwin Bancshares, Inc.	330,844	308,192	-	-
Cardinal Bancresources, Inc.	331,026	307,151	-	-
Due to other related parties	379,745	278,803	-	-
MAIC	-	-	-	49,733,878
	<u>P 2,666,964</u>	<u>P 2,762,344</u>	<u>P -</u>	<u>P 49,733,878</u>

These entities are related parties of the Group by virtue of having interlocking directors and common executive officers.

The Group and the parent company grant advances to these related parties for working capital purposes. The advances are non-interest bearing, unsecured and repayable within 12 months, presented as Due from Related Parties in the statements of financial position.

### 13.3 Due to Related Parties

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
LCR	P 62,393,568	P 178,292,546	P -	P 117,600,526
Citinvest Asia Limited	57,831,127		57,831,127	
Bountiful Bancresources Holdings, Inc.	1,500,000	1,500,000		1,500,000
Solid Payback Holdings, Inc.	2,052,523	2,052,523		2,052,523
LSI	3,150,000	2,950,000	3,150,000	2,950,000
	<u>P 126,927,218</u>	<u>P 184,795,072</u>	<u>P 60,981,127</u>	<u>P 124,103,049</u>

Due to related parties pertains to non-interest bearing, unsecured and payable on demand advances from the foregoing related parties for working capital purposes.

### 13.4 Cash in Bank

The Group has bank deposits with EIB amounting to zero and P361,992 as of September 30, 2012 and December 31, 2011, respectively (nil for the parent company in both years (see Note 7).

## 14. EMPLOYEE BENEFITS

The Group maintains a non-contributory retirement plan that is being administered by a trustee 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 is as of December 31, 2011.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Present value of obligation	<b>P 5,417,935</b>	P 4,369,533	<b>P 1,894,493</b>	P 1,241,484
Fair value of plan assets	<b>( 1,645,529)</b>	( 854,508)	<b>( 505,980)</b>	( 248,590)
Unfunded liability	<b>3,772,406</b>	3,515,025	<b>1,388,513</b>	992,894
Unrecognized actuarial loss	<b>( 1,399,312)</b>	( 1,029,175)	<b>( 985,600)</b>	( 589,585)
	<u><b>P 2,373,094</b></u>	<u>P 2,485,850</u>	<u><b>P 402,913</b></u>	<u>P 403,309</u>

The movements in the present value of the retirement benefit obligation recognized in the books follow:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<b>P 4,369,532</b>	P 3,507,650	<b>P 1,241,484</b>	P 850,983
Current service cost	<b>353,495</b>	333,929	<b>100,436</b>	81,014
Interest cost	<b>250,330</b>	203,754	<b>104,638</b>	85,803
Actuarial losses	<b>444,578</b>	324,200	<b>447,935</b>	223,684
Balance at end of year	<b><u>P 5,417,935</u></b>	<u>P 4,369,533</u>	<b><u>P 1,894,493</u></b>	<u>P 1,241,484</u>

As of December 31, 2011, the plan assets consist of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Investment in government securities	<b>P 749,970</b>	P 752,631	<b>P 211,362</b>	P 213,605
Deposit in banks	<b>889,925</b>	95,261	<b>293,253</b>	32,356
Interest receivables	<b>7,002</b>	7,673	<b>1,786</b>	2,937
Accrued trust fees payable	<b>(1,368)</b>	(1,057)	<b>(421)</b>	(308)
Balance at end of year	<b><u>P 1,645,529</u></b>	<u>P 854,508</u>	<b><u>P 505,980</u></b>	<u>P 248,590</u>

The movements in the retirement benefit obligation recognized in the books follow:

	<u>Consolidated</u>			<u>Parent Company</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 2,485,850</b>	P 1,950,369	P 1,207,914	<b>P 403,309</b>	P 220,420	P 55,407
Expense recognized	<b>624,111</b>	535,481	742,455	<b>241,673</b>	182,889	165,013
Contributions paid	<b>(736,867)</b>	-	-	<b>(242,069)</b>	-	-
	<b><u>P 2,373,094</u></b>	<u>P 2,485,850</u>	<u>P 1,950,369</u>	<b><u>P 402,913</u></b>	<u>P 403,309</u>	<u>P 220,420</u>

For determination of the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Discount rates	<b>6.62%</b>	8.09%	9.52%
Expected rate of return on plan assets	<b>4.00%</b>	4.00%	4.00%
Expected rate of salary increases	<b>5.00%</b>	5.00%	5.00%

## 15. TAXES

The breakdown of the Group's NOLCO as of September 30, 2012 and December 31, 2011, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

Year	Consolidated		Parent Company		Valid Until
	Original Amount	Tax Effect	Original Amount	Tax Effect	
2011	P 10,420,193	P 3,126,058	P 4,632,872	P 1,389,861	2014
2010	7,847,822	2,354,347	3,055,335	916,601	2013
2009	<u>23,342,231</u>	<u>7,002,669</u>	<u>3,538,886</u>	<u>1,061,666</u>	2012
	<u>P 41,610,246</u>	<u>P 12,483,074</u>	<u>P 11,227,093</u>	<u>P 3,368,128</u>	

## 16. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended September 30, 2012, 2011 and 2010 are computed as follows:

	2012	2011	2010
a. Net loss	₱ 7,289,924	₱ 4,130,196	₱146,260,693
b. Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c. Basic EPS (a/b)	(₱0.0104)	(₱0.0059)	(₱0.2089)

The Group has no dilutive potential common shares as of September 30, 2012 and December 31, 2011.

## 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 of September 30, 2012, 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.

**MEDCO HOLDINGS, INC.and SUBSIDIARY**  
**AGING OF ACCOUNTS RECEIVABLE**  
As of September 30, 2012

	<b>NO OF DAYS OUTSTANDING</b>				
<b>AMOUNT</b>	<b>1 -30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>Over 120 days</b>
Various	<u>P 40,250</u>				<u>P40,250</u>