

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 **31 March 2014**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc.**
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
6. (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 66**
9. Securities registered pursuant to Sections 4 and 8 of the RSA

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

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

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).
Yes [/] No []

(b) has been subject to such filing requirements for the past 90 days.
Yes [/] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

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

2014- First Quarter Financial Highlights

Total consolidated revenues for the first quarter of 2014 increased substantially compared to the previous year's first quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income. The increase in the revenue account was due to the cash dividend from Manila Exposition Complex, Inc. received this quarter. No cash dividend was received for the first quarter of previous year. Cash dividend income comprised 99.96% of this year's first quarter revenues while interest income from short term placement and bank deposits comprised 0.04%.

Consolidated expenses decreased by 10.57% compared to last year's first quarter. The expenses for this quarter were composed of salaries and wages (54%), occupancy (13%), PSE fees (8%), representation (5%), professional fee (5%) and other expenses (15%). The decrease in the consolidated expenses was mainly due to the decline in representation expense which decreased by 46% for this quarter as compared to last year's first quarter. Also, no foreign exchange loss was incurred during this quarter unlike in the previous year's first quarter. Other than these, there was no significant movement in the other expense components.

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 last year. The decrease in the loans and receivables account resulted from the collection of loans receivable from employees. On the other hand, the increase in the due from related parties account resulted from the advances granted to some of its affiliates. There was no significant change noted in the total liabilities.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at March 31, 2014 consisted of P8.4 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

2013- First Quarter Financial Highlights

Consolidated revenues for the first quarter of 2013 decreased significantly by 98.59% compared to the previous year's first quarter figure. Consolidated revenues for this quarter consisted mainly of interest income from short-term placement. The decrease in the revenue account was due to there being no cash dividend received this year. Cash dividend income comprised 72% of the previous year's first quarter revenues. There were also no fees and other commissions earned for the first quarter of 2013.

Consolidated expenses also decreased by 14.67% compared to last year's first quarter. The expenses for this quarter were composed of salaries and wages (50%), occupancy (11%), representation (9%), PSE fees (8%), professional fee (5%) and other expenses (17%). The decrease in the consolidated expenses was mainly due to there being no loss on sale of available for sale securities this year. Such a loss amounting to P0.57 million was incurred in the previous year's first quarter. Other than that, there was no significant movement in the expense components.

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 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, 2012. Likewise, the decrease in the due from related parties account resulted from the collection of advances due from one of its affiliates. There was no significant change noted in the total liabilities.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at March 31, 2013 consisted of P12.5 million of cash and cash equivalents. Its external sources of liquidity would consist of, among others, advances from its affiliate companies or major shareholders.

2012- First Quarter Financial Highlights

Total consolidated revenues for the first quarter of 2012 showed no significant change compared to the previous year's first quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (72%), fees and other commission (26%), interest income from short-term placement (2%).

Consolidated expenses increased by 6% compared to last year's quarter. The expenses for this quarter were composed of salaries and wages (44%), loss on sale of available for sale securities (14%), representation (10%), occupancy (10%), PSE fees (6%), and other expenses (16%). The increase in the consolidated expenses was mainly due to the loss on sale of available for sale securities. There was no significant movement in the expense components.

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 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, 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.

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 March 31, 2012 consisted of P26 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

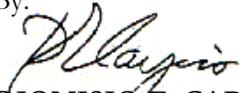
Not applicable.

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


MARY ANN A. MIEL
Principal Accounting Officer

First Quarter Top Five (5) Performance Indicators
March 31, 2014, 2013 and 2012

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2014	2013	2012	2014	2013	2012
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	10,176.87%	-98.59%	0.126%	-80.69%	-99.69%	-71.98%
2. Net Income Growth*	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	NA	NA	NA	NA	NA	NA
3. Return on Equity**	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	NA	NA	NA	NA	NA	NA
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.06x	0.08x	0.14x	0.041x	0.084x	0.13x
5. Debt-to-Equity-Ratio**	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	NA	NA	NA	NA	NA	NA

* Losses

** Capital Deficiency in 2013 and 2012

Note:

Y1= Current year

Y0= Previous year

ATTACHMENT A

MEDCO HOLDINGS, INC. AND SUBSIDIARY

**Financial Statements
March 31, 2014, 2013, and 2012**

**MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2014 AND DECEMBER 31, 2013**

	<u>2014</u>	<u>(Audited) 2013</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note 7)	P 8,391,568	P 9,077,971
Available-for-Sale Investments (Note 8)	31,293,500	31,293,500
Loans and receivables - net (Note 9)	377,220	433,458
Due from related parties (Note 13)	2,955,232	2,831,759
Other Assets (Note 11)	<u>527,418</u>	<u>490,554</u>
TOTAL ASSETS	P <u>43,544,938</u>	P <u>44,127,242</u>
<u>LIABILITIES AND EQUITY</u>		
LIABILITIES		
Accounts Payable and Accrued Expenses (Note 12)	P 2,164,173	P 2,134,577
Due to related parties (Note 13)	196,244,581	195,201,845
Retirement benefit obligation (Note 14)	<u>3,703,062</u>	<u>3,803,062</u>
	<u>202,111,816</u>	<u>201,139,484</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	252	252
Actuarial Losses	(2,542,551)	(2,542,551)
Deficit	<u>(855,313,636)</u>	<u>(854,363,896)</u>
Total equity attributable to equityholders of the parent	(132,357,023)	(131,407,283)
Minority interest	<u>(26,209,855)</u>	<u>(25,604,959)</u>
	<u>(158,566,878)</u>	<u>(157,012,242)</u>
TOTAL LIABILITIES AND EQUITY	P <u>43,544,938</u>	P <u>44,127,242</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES	P 1,500,649	P 14,602	P 1,042,299
EXPENSES	<u>3,055,285</u>	<u>3,416,271</u>	<u>4,003,505</u>
LOSS BEFORE MINORITY SHARE IN NET INCOME	(1,554,636)	(3,401,669)	(2,961,206)
LESS: MINORITY SHARE IN NET LOSS	<u>(604,896)</u>	<u>(611,355)</u>	<u>(780,626)</u>
LOSS BEFORE FINAL TAX	(949,740)	(2,790,314)	(2,180,580)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(949,740)	(2,790,314)	(2,180,580)
DEFICIT AT BEGINNING OF YEAR (as restated)	<u>(854,363,896)</u>	<u>(840,245,508)</u>	<u>(828,779,176)</u>
DEFICIT AT END OF THE QUARTER	<u>(855,313,636)</u>	<u>(843,035,822)</u>	<u>(830,959,756)</u>
LOSS PER SHARE (Note 16)	P <u>(0.001)</u>	P <u>(0.004)</u>	P <u>(0.003)</u>

**MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014, 2013, and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital Stock- P1par value			
Authorized, issued and outstanding- 700,000,000	P 700,000,000 P	700,000,000 P	700,000,000
Additional Paid-In Capital	25,498,912	25,498,912	25,498,912
Fair value loss in available-for-sale financial assets	252	252	252
Deficit			
Balance, beginning of year (as restated)	(854,363,896)	(840,245,508)	(828,779,176)
Net loss	<u>(949,740)</u>	<u>(2,790,314)</u>	<u>(2,180,580)</u>
Balance, end of quarter	<u>(855,313,636)</u>	<u>(843,035,822)</u>	<u>(830,959,756)</u>
Total Equity Attributable to Equityholders of the Parent Company	<u>(132,357,023)</u>	<u>(117,536,658)</u>	<u>(105,460,592)</u>
Minority Interest	<u>(26,209,855)</u>	<u>(22,103,416)</u>	<u>(19,595,484)</u>
Total Equity	P <u>(158,566,878) P</u>	<u>(139,640,074) P</u>	<u>(125,056,076)</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014, 2013 AND
FOR THE YEAR ENDED DECEMBER 31, 2013

	(Audited)		
	March 31	December 31	March 31
	<u>2014</u>	<u>2013</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss before tax and minority interest	P (1,554,636)	P (17,686,793)	P (3,401,669)
Adjustments for:			
Impairment Losses	-	4,117,907	-
Dividends	(1,500,000)	(1,500,000)	-
Interest income	(649)	(139,039)	(14,206)
Unrealized forex exchange loss(gain)	-	267,911	-
Decrease(increase) in:			
Receivables	56,238	(158,755)	52,872
Other assets	(36,864)	(161,181)	(49,280)
Due from related parties	(64,017)	(229,902)	190,691
Increase (decrease) in :			
Accounts payable and accrued expenses	29,596	(100,579)	(41,984)
Retirement benefit obligation	<u>(100,000)</u>	<u>(1,102,331)</u>	<u>-</u>
Cash provided by (used in) operating activities	<u>(3,170,332)</u>	<u>(16,692,762)</u>	<u>(3,263,576)</u>
Cash paid for income taxes	<u>-</u>	<u>(25,986)</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities	<u>(3,170,332)</u>	<u>(16,718,748)</u>	<u>(3,263,576)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	649	139,039	14,206
Dividends received	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>1,500,649</u>	<u>1,639,039</u>	<u>14,206</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowings from related parties	983,280	10,207,772	1,669,740
Repayment of amounts due to related parties	<u>-</u>	<u>(39,030)</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	<u>983,280</u>	<u>10,168,742</u>	<u>1,669,740</u>
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION			
OF CASH AND CASH EQUIVALENTS	<u>-</u>	<u>(174,311)</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(686,403)	(5,085,278)	(1,579,630)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,077,971</u>	<u>14,163,249</u>	<u>14,163,249</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	<u>P 8,391,568</u>	<u>P 9,077,971</u>	<u>P 12,583,619</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Medco Holdings, Inc. (MHI or the Parent Company), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on April 11, 1995. The Parent Company currently conducts business as an investment holding company. Its shares of stock are publicly traded at the Philippine Stock Exchange (PSE). The Parent Company holds ownership interest in the following companies (MHI and the subsidiaries are collectively referred to as the Group) as at March 31:

	<u>Percentage of Ownership</u>	<u>Notes</u>	<u>Nature of Business</u>
Subsidiaries:			
Medco Asia Investment Corporation (MAIC)	64.54		Investment house
Safeharbor Holdings, Inc. (SHI)	64.54	(a)	Investment holding company
Outperform Holdings, Inc. (OHI)	64.54	(a)	Investment holding company
Associate –			
Export and Industry Bank, Inc. (EIB)	10.31	(b)	Banking institution
Notes:			
(a)	Indirectly owned through MAIC; dormant company		
(b)	Includes direct ownership of 7.86% and indirect ownership through MAIC of 2.45%; under receivership.		

MHI is 46.04% owned by Citivest Asia Limited (CAL), an entity engaged in investment holding and registered in the British Virgin Islands. CAL considers MHI as one of its principal associates.

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

1.2 Status of Operations

The Group incurred net losses of P949,740 in 2014, P2,790,314 in 2013 and P2,180,580 in 2012, while the Parent Company incurred net income of P151,411 in 2014, net losses of P1,677,405 in 2013 and P759,531 in 2012. Consequently, the Group reported capital deficiency of P158,566,879 and P139,640,074 as at March 31, 2014 and 2013, respectively, and the Parent Company reported capital deficiency of P84,644,536 and P77,728,312 as at December 31, 2013 and 2012, respectively. These conditions indicate the existence of a material uncertainty which casts significant doubt on the ability of the Group to continue as a going concern. To address this material uncertainty, the Parent Company's management is finalizing the recapitalization of the Group as its initial step.

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 from the pronouncements issued by the International Accounting Standards Board (IASB).

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

(b) Presentation of Financial Statements

The financial statements are prepared in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Group'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, Revised and Amended PFRS

(a) *Effective in 2013 that are Relevant to the Group*

In 2013, the Group adopted for the first time the following new PFRS, revisions, improvements and amendments thereto that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
Consolidation Standards	:	
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and 12 (Amendment)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10 and 12
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13	:	Fair Value Measurement
Annual Improvements	:	Annual Improvements to PFRS (2009 – 2011 Cycle)

Discussed below and in the succeeding pages are the relevant information about these new, revised and amended standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – 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 PFRS: (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 amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012. The effect of the restatement on the affected assets, liabilities, and capital deficiency components is shown below.

	Consolidated		
	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Change in liability –</i>			
Retirement benefit obligation	(P 1,844,333)	(P 3,179,356)	(P 5,023,689)
<i>Changes in components of capital deficiency:</i>			
Revaluation reserve on accumulated actuarial losses	P -	(P 2,444,396)	(P 2,444,396)
Deficit	(840,245,507)	(359,452)	(840,604,959)
Non-controlling interest	(21,492,060)	(375,508)	(21,867,568)
Net increase in capital deficiency		(P 3,179,356)	
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Change in liability –</i>			
Retirement benefit obligation	(P 2,373,094)	(P 1,399,311)	(P 3,772,405)
<i>Changes in components of capital deficiency:</i>			
Revaluation reserve on accumulated actuarial losses	P -	(P 847,367)	(P 847,367)
Deficit	(828,779,176)	(407,145)	(829,186,321)
Non-controlling interest	(18,841,210)	(144,799)	(18,986,009)
Net increase in capital deficiency		(P 1,399,311)	

The effects of the adoption of PAS 19 (Revised) on the statements of comprehensive income for the years ended December 31, 2012 and 2011 are shown below.

		Consolidated		
		December 31, 2012		
		As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in profit or loss:</i>				
Employee benefits	P	8,158,900	(P 308,416)	P 7,850,484
Finance costs		-	<u>249,758</u>	249,758
Net increase in net profit			<u>(P 58,658)</u>	
<i>Changes in other comprehensive income –</i>				
Revaluation reserve on accumulated actuarial losses	P	-	<u>P 1,838,703</u>	P 1,838,703
		December 31, 2011		
		As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in profit or loss:</i>				
Employee benefits	P	7,086,828	(P 373,781)	P 6,713,047
Finance costs		-	<u>284,365</u>	284,365
Net increase in net profit			<u>(P 89,416)</u>	
<i>Changes in other comprehensive income –</i>				
Revaluation reserve on accumulated actuarial losses	P	-	<u>P 459,552</u>	P 459,552
		Parent Company		
		December 31, 2012		
		As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in profit or loss:</i>				
Employee benefits	P	4,154,552	(P 119,651)	P 4,034,901
Finance costs		-	<u>91,919</u>	91,919
Net increase in net profit			<u>(P 27,732)</u>	
<i>Changes in other comprehensive income –</i>				
Revaluation reserve on accumulated actuarial losses	P	-	<u>P 1,148,207</u>	P 1,148,207
		December 31, 2011		
		As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in profit or loss:</i>				
Employee benefits	P	3,061,307	(P 137,035)	P 2,924,272
Finance costs		-	<u>80,325</u>	80,325
Net increase in net profit			<u>(P 56,710)</u>	
<i>Changes in other comprehensive income –</i>				
Revaluation reserve on accumulated actuarial losses	P	-	<u>P 452,725</u>	P 452,725

The adoption of PAS 19 (Revised) did not have a material impact on the basic and diluted loss per share in 2012 and 2011.

The adoption of PAS 19 (Revised) has the following effects on the 2012 and 2011 statements of cash flows:

	<u>Consolidated</u>		
	<u>December 31, 2012</u>		
	<u>As Previously</u> <u>Reported</u>	<u>Effect of</u> <u>Adoption of</u> <u>PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in cash flows:</i>			
Loss before tax	(P 14,261,896)	P 58,659	(P 14,203,237)
Decrease in retirement benefit obligation	(528,760)	(<u>58,659</u>)	(587,419)
Impact on cash and cash equivalents		<u>P -</u>	
	<u>December 31, 2011</u>		
	<u>As Previously</u> <u>Reported</u>	<u>Effect of</u> <u>Adoption of</u> <u>PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in cash flows:</i>			
Loss before tax	(P 163,168,110)	P 89,416	(P 163,078,694)
Decrease in retirement benefit obligation	(112,756)	(<u>89,416</u>)	(202,172)
Impact on cash and cash equivalents		<u>P -</u>	
	<u>Consolidated</u>		
	<u>December 31, 2012</u>		
	<u>As Previously</u> <u>Reported</u>	<u>Effect of</u> <u>Adoption of</u> <u>PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in cash flows:</i>			
Loss before tax	(P 6,247,021)	P 27,732	(P 6,219,289)
Decrease in retirement benefit obligation	(19,936)	(<u>27,732</u>)	(47,668)
Impact on cash and cash equivalents		<u>P -</u>	
	<u>December 31, 2011</u>		
	<u>As Previously</u> <u>Reported</u>	<u>Effect of</u> <u>Adoption of</u> <u>PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in cash flows:</i>			
Loss before tax	(P 71,853,208)	P 56,710	(P 71,796,498)
Decrease in retirement benefit obligation	(396)	(<u>56,710</u>)	(57,106)
Impact on cash and cash equivalents		<u>P -</u>	

(iii) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosures standards comprises of PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (Revised 2011), *Separate Financial Statements* and PAS 28 (Revised 2011), *Investments in Associates and Joint Ventures*. In 2013, the Group has adopted the following consolidation standards that are relevant to the Group and effective as of January 1, 2013:

- PFRS 10 changes the definition of control focusing on three elements which determines whether the investor has control over the investee such as the (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining controls when this is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.
- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.
- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosure about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and have determined that the adoption of the foregoing standards had no material impact on the amounts recognized in the financial statements. Additional information, however, are disclosed in compliance with the requirements of PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries and the associate (see Note 10).

- (iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The adoption of this amendment did not result in any significant changes in the Group's disclosures on its financial statements as it has no master netting arrangements; however, potential offsetting arrangements are disclosed in Note 19.2.
- (v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The amendment applies prospectively from annual period beginning January 1, 2013; hence, disclosure requirements need not be presented in the comparative information in the first year of application. Other than the additional disclosure presented in Note 20.3, the application of this new standard had no significant impact on the amounts recognized in the financial statements.

(vi) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, related notes to the opening statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' financial statements, the Group has presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

(b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(c) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of International Financial Reporting Standard (IFRS) 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The adoption of this amendment did not result in any significant changes in the Group's disclosures on its annual financial statements.

(b) *Effective in 2013 that are not Relevant to the Group*

The following amendments, interpretation and improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loans
Annual Improvements		
PFRS 1 (Amendments)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs
PAS 16 (Amendment)	:	Property, Plant and Equipment – Classification of Servicing Equipment
Philippine Interpretation – International Financial Reporting Interpretations Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. 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) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's financial statements.
- (ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its financial statements.

- (iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.
- (iv) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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 arrangements, 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 the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to IFRS 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

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

- (v) PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term “investment entities,” provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate this amendment to have a material impact on the Group’s financial statements.

- (vi) Annual Improvements to PFRS. Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group’s financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

- (a) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the key management entity to its employees or directors.
- (b) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). This requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- (c) PFRS 8 (Amendment), *Operating Segments* (effective July 1, 2014). This requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments and clarifies that the reconciliations of segment assets are only required if segment assets are reported regularly.

- (d) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

- (a) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- (b) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

2.3 Basis of Consolidation

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries, as disclosed in Note 1.1, after the elimination of all intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it exercises power over the investee, it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control. The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that 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 as gain in profit or loss (see Note 2.7).

(b) *Investment in an Associate*

An associate is an entity over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investment in associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate.

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.14).

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

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

(c) *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, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Parent Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

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

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

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

(a) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

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

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 Company 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 future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

(b) *AFS Financial Assets*

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

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves from Net Unrealized Gains (Losses) on Available-for-sale Financial Assets account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

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

All income and expenses relating to financial assets are recognized in profit or loss in the statement of comprehensive income.

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

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

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

2.5 Other Assets

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

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.6 Financial Liabilities

Financial liabilities, which include accounts payable and accrued expenses (except tax-related liabilities) and due to related parties, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the statement of comprehensive income.

Trade and other payables and due to related parties are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.7 Business Combinations

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.14).

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

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

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

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

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

2.8 Offsetting Financial Instruments

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

2.9 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.

2.10 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 value-added tax (VAT) and discounts, if any.

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

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

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

2.11 Leases - Group as Lessee

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

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

2.12 Foreign Currency Transactions and Translations

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

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

2.13 Segment Reporting

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements, except for post-employment benefit expense which is not included in arriving at the operating profit of the operating segments.

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.

2.14 Impairment of Non-financial Assets

The Group's investments in an associate and goodwill and the Parent Company's investments in a subsidiary and an associate and other non-financial assets are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.7). 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 for impairment either individually or at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.15 Employee Benefits

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

(a) Defined Benefit Plan

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. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of zero coupon government bonds, as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Defined Benefit Contribution Plans*

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

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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

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, provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.17 Equity

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

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

Revaluation reserves comprise unrealized gains and losses on fair value changes of AFS financial assets and remeasurements of defined benefit post-employment plan.

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

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

2.18 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with MHI and subsidiaries; (b) associates; (c) the Group's retirement plan; and, (d) 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.

2.19 Loss Per Share

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

Diluted loss per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding; hence, the diluted loss per share is equal to the basic loss per share.

2.20 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets, except the portion that has already been provided with allowance for impairment, are not impaired as at March 31, 2014 and 2013. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Distinction between Operating and Finance Leases

The Group has entered in a lease agreement as lessee. 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 judgment will result in either overstatement or understatement of assets and liabilities. As at March 31, 2014 and 2013, management determined that the current lease agreement is an operating lease.

(c) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.9 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) *Impairment of Receivables*

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

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

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

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

The carrying values of the Group's AFS financial assets and the amounts of fair value changes recognized in 2014 and 2013 on those assets are disclosed in Note 8.

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

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

No deferred tax assets were recognized since the Group's management believes that it will not be able to generate sufficient taxable profit in the coming years (see Note 15).

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.14). 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 those 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.

Impairment loss recognized on the Group's goodwill is disclosed in Note 11 while impairment losses recognized on the Investments in Subsidiaries and an Associate are discussed in Notes 1.2 and 10.

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

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 14.

4. SEGMENT REPORTING

4.1 Business Segments

The Group is organized into two major business segments – investment banking and investment holding activities. These are also the basis of the Group for management assessment of each unit and the basis of the Group in reporting to its strategic steering committee for its strategic decision-making activities.

- (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 are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash and receivables. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

4.3 Analysis of Segment Information

The details of the Group's segment information, including the reconciliation to the key financial information presented in its consolidated financial statements, are as follows:

	2014		
	Investment Banking	Investment Holding	Total
Income:			
Investment income	P 175	474	649
Others	-	1,500,000	1,500,000
	175	1,500,474	1,500,649
Expenses	1,706,222	1,349,063	3,055,285
Operating Loss	P 1,706,047	P (151,411)	P 1,554,636
Non-controlling interest in Net losses of subsidiary			(604,896)
Net Loss			P(949,740)
Segment assets	P 3,955,751	P 39,589,187	P 43,544,938
Goodwill			-
Total assets			P 43,544,938
Segment liabilities	P 78,029,506	P 124,082,310	P 202,111,816

	2013		
	Investment Banking	Investment Holding	Total
Income:			
Investment income	P 512	13,694	14,206
Others	<u>396</u>	<u> </u>	<u>396</u>
	<u>908</u>	<u>13,694</u>	<u>14,602</u>
Expenses	<u>1,725,172</u>	<u>1,691,099</u>	<u>3,416,271</u>
Operating Loss	P <u>1,724,264</u>	P <u>1,677,405</u>	P 3,401,669
Non-controlling interest in Net losses of subsidiary			<u>(611,355)</u>
Net Loss			<u>P(2,790,314)</u>
Segment assets	P <u>6,852,031</u>	P <u>44,154,644</u>	P 51,006,675
Goodwill			<u> </u>
Total assets			<u>P 51,006,675</u>
Segment liabilities	P <u>68,192,463</u>	P <u>122,454,286</u>	P <u>190,646,749</u>
	2012		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P 275,294	P -	P 275,294
Investment income	15,210	452	15,662
Others	<u>970</u>	<u>750,373</u>	<u>751,343</u>
	<u>291,474</u>	<u>750,825</u>	<u>1,042,299</u>
Expenses	<u>2,493,150</u>	<u>1,510,355</u>	<u>4,003,505</u>
Operating Loss	P <u>2,201,676</u>	P <u>759,531</u>	P 2,961,206
Non-controlling interest in Net losses of subsidiary			<u>(780,626)</u>
Net Loss			<u>P(2,180,580)</u>
Segment assets	P <u>9,700,631</u>	P <u>54,667,032</u>	P 64,367,663
Goodwill			<u> </u>
Total assets			<u>P 64,367,663</u>
Segment liabilities	P <u>72,195,669</u>	P <u>117,228,071</u>	P <u>189,423,740</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 a variety of financial risks in relation to financial instruments. 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.

The Group does not actively 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 Market Risk

(a) 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 cash and cash equivalents and advances to and from related parties, which are primarily denominated United States (U.S.) dollars and Hong Kong (HK) dollars.

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

(b) 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 March 31, 2014 and 2013, the Group is exposed to changes in market interest rates through its cash and cash equivalents which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.2 Credit Risk

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

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

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

	Notes	Consolidated		Parent Company	
		2014	2013	2014	2013
Cash and cash equivalents	7	P 8,391,568	P 12,583,619	P 7,943,320	P 11,739,375
Receivables - net	9	377,220	223,831	326,147	223,831
Due from related parties	13	2,955,232	2,409,165	2,000	1,000,000
Security deposits	11	<u>181,456</u>	<u>181,456</u>	<u>-</u>	<u>-</u>
		<u>P 11,905,476</u>	<u>P 15,398,071</u>	<u>P 8,271,467</u>	<u>P 12,963,206</u>

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

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P500,000 for every depositor per banking institution.

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. Also, there are no unimpaired financial assets that are past due as at March 31, 2014 and 2013.

5.3 *Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

As at March 31, the Group's financial liabilities have contractual maturities of within one year as presented below.

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Due to related parties	P 196,244,581	P 186,702,843	P 120,750,527	P 121,750,526
Accounts payable and accrued expenses (excluding tax-related liabilities)	<u>2,027,896</u>	<u>2,099,572</u>	<u>268,500</u>	<u>320,822</u>
	<u>P 198,272,477</u>	<u>P 188,802,415</u>	<u>P 121,019,027</u>	<u>P 122,071,348</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.

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 the recapitalization of the Group which it will then be able to use in its future investing activities.

Relevant information is shown below.

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Total liabilities	P 202,111,816	P 190,646,749	P 124,082,310	P 122,454,286
Capital deficiency	158,566,878	139,640,074	84,493,124	77,299,642

As at March 31, 2014 and 2013, the Group is not subject to any externally imposed capital requirements.

6.2 Track Record of Registration of Securities

The Parent Company has a total authorized capital stock of P700,000,000 divided into 700,000,000 common shares with a P1 par value which are issued and outstanding as at March 31, 2014 and 2013.

On November 18, 1975, the SEC approved the listing at the PSE of the Parent Company's shares totalling 700,000,000. As at March 31, 2014, there are 685 holders of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed shares closed at P0.221 per share as at March 31, 2014.

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

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Consolidated		Parent Company	
	2014	2013	2014	2013
Cash on hand	P 8,000	P 8,000	P -	P -
Cash in banks	2,786,648	1,575,619	2,346,400	739,375
Short-term placements	<u>5,596,920</u>	<u>11,000,000</u>	<u>5,596,920</u>	<u>11,000,000</u>
	<u>P 8,391,568</u>	<u>P 12,583,619</u>	<u>P 7,943,320</u>	<u>P 11,739,375</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 45 days and earn annual effective interest ranging from 1.075% to 1.125% for the first quarter of 2014.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Consolidated		Parent Company	
	2014	2013	2014	2013
Not quoted	P 76,292,533	P 76,292,533	P 76,268,750	P 76,268,750
Quoted	<u>578</u>	<u>578</u>	<u>-</u>	<u>-</u>
	76,293,111	76,293,111	76,268,750	76,268,750
Allowance for impairment	(<u>45,000,000</u>)	(<u>45,000,000</u>)	(<u>45,000,000</u>)	(<u>45,000,000</u>)
	31,293,111	31,293,111	31,268,750	31,268,750
Unrealized fair value gain	<u>389</u>	<u>389</u>	<u>-</u>	<u>-</u>
	<u>P 31,293,500</u>	<u>P 31,293,500</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

The fair values of quoted AFS financial assets have been determined directly by reference to published prices in active markets, i.e., the PSE.

The investment in unquoted AFS financial assets of the Group as at March 31, 2014 and 2013 pertains to the Parent Company's investment in Manila Exposition Complex, Inc. representing 18.18% ownership interests (P31,268,750) and investment in I-Mart

Corporation representing 10% ownership interests (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

9. RECEIVABLES

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Accounts receivable	P 40,313,000	P 40,536,831	P 40,313,000	P 40,536,831
Advances to employees	50,872		5,921	
Other receivables	<u>326,348</u>		<u>320,226</u>	
	40,690,220	40,536,831	40,639,147	40,563,831
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 377,220</u>	<u>P 223,831</u>	<u>P 326,147</u>	<u>P 223,831</u>

All of the receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	<u>% Interest Held</u>	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Associate					
EIB	10.31%	P 860,659,849	P 860,659,849	P -	P -
	2.45%	-	-	478,380,834	478,380,834
Subsidiary					
MAIC	64.54%	<u>-</u>	<u>-</u>	<u>199,995,929</u>	<u>199,995,929</u>
		860,659,849	860,659,849	678,376,763	678,376,763
Allowance for impairment		<u>(860,659,849)</u>	<u>(860,659,849)</u>	<u>(678,376,763)</u>	<u>(678,376,763)</u>
		<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>

The place of incorporation which is similar with the place of operation of the Parent Company's subsidiary and associate are as follows:

- (a) EIB – 36th Floor, Export Bank Plaza, Don Chino Roces Avenue, corner Sen. Gil Puyat Avenue, Makati City
- (b) MAIC – 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City

10.1 Investment in a Subsidiary

As at December 31, 2011, MAIC reported deficit of P361,700,895 and capital deficiency of P59,389,933. Consequently, the Parent Company fully impaired the carrying value of the investment in MAIC amounting to P68,285,821 (presented as Impairment Losses in the Parent Company's 2011 statement of comprehensive income).

10.2 Investment in an Associate

EIB is considered an associate because the Company has significant influence over EIB as certain members of the Company's Board of Directors (BOD) are also members of the BOD of EIB.

On April 26, 2012, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) placed EIB under receivership pursuant to Section 30 of Republic Act 7653, otherwise known as the *The New Central Bank Act*. PDIC was designated as Receiver of EIB and took over EIB on April 27, 2012. Prior to the receivership order of the BSP, EIB had been incurring losses and was in negotiations to sell its assets (with assumption by the buyer of its liabilities). These negotiations did not push through and in 2011, the Group provided full allowance for impairment on the investment's carrying value of P148,746,260 (presented as part of Impairment Losses in the 2011 consolidated statement of comprehensive income).

11. OTHER ASSETS

This account consists of the following:

	Notes	Consolidated		Parent Company	
		2014	2013	2014	2013
Goodwill		P -	P -	P -	P -
Creditable withholding tax		-	3,104,911	-	-
Input taxes – net		48,970	920,688	48,970	920,688
Advance rentals	13.1, 17.1	203,231	203,231	-	-
Security deposits	13.1, 17.1	181,456	181,456	-	-
Miscellaneous		<u>93,761</u>	<u>86,274</u>	<u>-</u>	<u>-</u>
		<u>527,418</u>	<u>4,496,560</u>	<u>48,970</u>	<u>920,688</u>

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. In relation to the management's decision to fully impair the Parent's Company investment in MAIC, the Group also retroactively recognized full valuation allowance on its goodwill [see also Notes 3.2(d) and 10]. The related impairment loss is presented as part of Impairment losses in the 2011 statement of comprehensive income.

In 2013, the Group recognized impairment losses on its creditable withholding tax and input VAT since management believes that the Group will not be able to offset such against any future tax liabilities. The amount of impairment loss is presented as Impairment losses in the 2013 statement of comprehensive income.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Consolidated		Parent Company	
	2014	2013	2014	2013
Accounts payable	P 1,559,269	P 1,495,985	P -	P -
Accrued expenses	468,627	448,510	268,500	235,541
Withholding tax payable	136,277	155,077	58,377	85,281
	<u>P 2,164,173</u>	<u>P 2,099,572</u>	<u>P 326,877</u>	<u>P 320,822</u>

13. RELATED PARTY TRANSACTIONS

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

13.1 *Lease of Office Space*

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 rent charged to operations amounted to P382,846 in the first quarter of 2014, 2013 and 2012, for the group, and P78,000 in each of the quarters for the Parent Company.

Security deposits and advance rentals, which shall be applied against the last two months of the lease term, totalling P384,687 as at March 31, 2014 and 2013 are included as part of Other Assets in the statements of financial position (see Note 11).

13.2 *Due from Related Parties*

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

This account consists of the following as of March 31:

	Consolidated		Parent Company	
	2014	2013	2014	2013
Lead Bancfund Corp.	P 533,035	P 356,169	P -	P -
Apex Bancrights Corp.	531,885	355,119	-	-
Solid Payback Holdings, Inc. (SPHI)	505,834	481,706	-	-
Bountiful Bancresources Holdings, Inc. (BBHI)	482,884	458,756	-	-
Cardinal Bancresources, Inc.	361,754	337,626	-	-
Goldwin Bancshares, Inc.	361,572	337,444	-	-
CTC Entrepreneurs Corp.	82,158	49,082	1,000	1,000
Lippo Securities, Inc. (LSI)	35,654	-	-	-
Keytrend Technologies Phils., Inc. (KTPI)	1,000	-	1,000	1,000
Others	<u>59,456</u>	<u>33,263</u>	<u>-</u>	<u>1,000,000</u>
	<u>P 2,955,232</u>	<u>P 2,409,165</u>	<u>P 2,000</u>	<u>P 1,002,000</u>

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

13.3 *Due to Related Parties*

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

As of March 31, this account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Lippo China Resources Ltd. (LCR)	P -	P -	P -	P -
CAL	122,117,409	122,075,420	57,831,127	57,831,126
Classic Tycoon Investment, Ltd. (CTIL)	29,884,700	29,884,700	29,884,700	29,884,700
Fair Navigator, Ltd. (FNL)	29,884,700	29,884,700	29,884,700	29,884,700
CPIL	11,000,000	1,500,000	-	1,000,000
LSI	3,150,000	3,150,000	3,150,000	3,150,000
KTPI	<u>207,772</u>	<u>208,023</u>	<u>-</u>	<u>-</u>
	<u>P 196,244,581</u>	<u>P 186,702,843</u>	<u>P 120,750,527</u>	<u>P 121,750,526</u>

In 2012, LCR assigned its receivable totalling P117,600,526 from the Parent Company to CTIL, FNL and CAL. CTIL and FNL are both related parties under common ownership; while CAL is the Parent Company's stockholder.

14. EMPLOYEE BENEFITS

Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Group maintains a partially-funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's Management Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service and voluntary separation with a minimum of 5 years of credited service, both subject to the approval of the Group's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised) [see Note 2.2(a)(ii)].

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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Present value of obligation	P 5,840,309	P 5,940,309	P 4,193,379	P 4,293,379
Fair value of plan assets	(2,137,247)	(2,137,247)	(1,188,473)	(1,188,473)
	<u>P 3,703,062</u>	<u>P 3,803,062</u>	<u>P 3,004,906</u>	<u>P 3,104,906</u>

15. CURRENT AND DEFERRED TAXES

The breakdown of NOLCO as at March 31, 2014, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

Consolidated					
<u>Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2013	P	14,089,173	P -	P 14,089,173	2016
2012		13,523,547	-	13,523,547	2015
2011		10,420,194	-	10,420,194	2014
2010		<u>7,847,822</u>	<u>7,847,822</u>	-	2013
	P	<u>45,880,736</u>	P <u>7,847,822</u>	P <u>38,032,914</u>	
Parent Company					
<u>Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2013	P	6,217,185	P -	P 6,217,185	2016
2012		5,995,697	-	5,995,697	2015
2011		4,632,872	-	4,632,872	2014
2010		<u>3,055,335</u>	<u>3,055,335</u>	-	2013
	P	<u>19,901,089</u>	P <u>3,055,335</u>	P <u>16,845,754</u>	

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. In 2013 and 2012, no MCIT and RCIT was reported since the Group does not have taxable revenues and other income during those years.

Details of MCIT as at March 31, 2014, which can be applied against future RCIT within three years from the year MCIT was incurred, is shown below.

Consolidated					
<u>Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2011	P	2,445	P -	P 2,445	2014
2010		<u>118,483</u>	<u>118,483</u>	-	2013
	P	<u>120,928</u>	P <u>118,483</u>	P <u>2,445</u>	
Parent Company					
<u>Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2011	P	30	P -	P 30	2014
2010		<u>15,320</u>	<u>15,320</u>	-	2013
	P	<u>15,350</u>	P <u>15,320</u>	P <u>30</u>	

16. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended March 31, 2014, 2013 and 2012 is computed as follows:

	Consolidated			Parent Company		
	2014	2013	2012	2014	2013	2012
Net loss attributable to the shareholders of Parent Company	P 949,740	P 2,790,314	P 2,180,580	P (151,411)	P 1,677,405	P 759,531
Divided by the weighted average number of outstanding shares	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>
Basic and diluted loss per share	<u>P 0.001</u>	<u>P 0.004</u>	<u>P 0.003</u>	<u>P (0.0002)</u>	<u>P 0.002</u>	<u>P 0.001</u>

The Group has no dilutive potential common shares as at March 31, 2014, 2013 and 2012.

17. COMMITMENTS AND CONTINGENCIES

17.1 *Operating Lease Commitments*

The Group is a lessee under a non-cancellable lease agreement covering certain office space. The lease is for a period of two years which may be renewed for another two years.

In addition, the lease provides for payment of advance rental equivalent to two months' rent, inclusive of VAT, of P203,231, and security deposit of P181,456. These are presented as Other Assets in the statements of financial position (see Note 11).

Total rent expense from this operating lease in the first quarter of 2014, 2013 and 2012 amounted to P382,846 and P78,000 for the Group and the Parent Company, respectively.

17.2 *Others*

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As at March 31, 2014, 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.