COVER SHEET

3 9 6 5 2

SEC Registration Number

M E D C O H O L D I N G S , I N C .

(Company's Full Name)

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

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

Dionisio E. Carpio, Jr.	811-0465
(Contact Person)	(Company Telephone Number)

1 2 / 3 1	Definitive SEC Form 20-IS	
Month *Day* (Fiscal Year)	(Form Type)	*Month* *Day* (Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20 – IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement

   [x] Definitive Information Statement

2. Name of Registrant as specified in its charter: **Medco Holdings, Inc.**

3. Province, country or other jurisdiction of incorporation or organization
   Metro Manila, Philippines

4. SEC Identification Number: **39652**

5. BIR Tax Identification Code: **004-844-938**

6. Address of principal office — Postal Code
   31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue
   Makati City, Metro Manila, Philippines — 1229

7. Registrant's telephone number, including area code: **(632) 811-0465 to 67**

8. Date, time and place of the meeting of security holders
   December 28, 2012, 10:00 a.m. at Brasserie 21, 21st Floor Security Bank Centre, 6766 Ayala Avenue, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders – December 07, 2012

10. In case of proxy Solicitations: (**Not applicable)**

11. Securities registered pursuant to Section 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common	**700,000,000 shares**

12. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes __x__ No _____

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

    The entire outstanding capital stock of the Company of 700,000,000 common shares are listed on the First Board of the Philippine Stock Exchange.

MEDCO HOLDINGS, INC.

Notice of Annual Meeting of Stockholders

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of the Stockholders of Medco Holdings, Inc. (the "Corporation") which will be held on December 28, 2012 at 10:00 a.m. at Brasserie 21, 21st Floor Security Bank Centre, 6766 Ayala Avenue, Makati City. The agenda for the meeting is as follows:

I. Call to Order
II. Certification of Notices and Quorum
III. Approval of the minutes of the annual meeting of stockholders held on December 28, 2011;
IV. Approval of the Annual Report and the Audited Financial Statements as of December 31, 2011;
V. Approval and Ratification of the acts, contracts, investments and resolutions of the Board and management of the Corporation since the last annual meeting on December 28, 2011;
VI. Election of the members of the Board of Directors for the year 2012;
VII. Re-appointment of Punongbayan & Araullo, the Philippine representative of Grant Thornton International, as external auditors of the Corporation for the year 2012;
VIII. Other matters that may properly come before December 28, 2012 (date of meeting).

Only stockholders of record in the books of the Corporation at the close of business on December 11, 2012 will be entitled to vote at the meeting. A list of stockholders entitled to vote will be available for inspection at the offices of the Corporation at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, Metro Manila, Philippines, on December 12, 2012, at least fifteen (15) days prior to the Annual Meeting.

Medco Holdings, Inc.
By:

MA. LOURDES B. BATHAN
Assistant Corporate Secretary

Makati City, Philippines November 26, 2012

REGISTRATION OF STOCKHOLDERS WILL START AT 9:00 A.M.

WE ARE NOT ASKING YOU FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND US A PROXY.

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders.

(a) The Annual Meeting of the stockholders of Medco Holdings, Inc. (the "Company") shall be held on:

Date : December 28, 2012
Time: 10:00 a.m.
Place: Brasserie 21, 21st Floor Security Bank Centre, 6766 Ayala Avenue, Makati City

The complete mailing address of the principal office of the Company is as follows:

31st Floor, Rufino Pacific Tower,
6784 Ayala Avenue, Makati City,
Metro Manila, Philippines

(b) Copies of this Information Statement will be sent or given to the stockholders on or about December 07, 2012

Item 2. Dissenters' Right of Appraisal

The appraisal right of a stockholder may be exercised only when a proposed corporate action would involve a fundamental change in the corporation in the cases provided by law. The appraisal right is exercised by any stockholder who shall vote against the proposed corporate action involving a fundamental change in the corporation, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares; Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two (2) thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made; Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; Provided, further, that upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

The appraisal right of a stockholder is inapplicable to this meeting. There are no matters to be taken up in the coming meeting that may give rise to the exercise of this right.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) None of the following persons have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon:

(1) A person who has been a director or officer of the Company at any time since the beginning of the last fiscal year;

(2) A nominee for election as a director of the Company; and

(3) An associate of any of the foregoing persons.

(b) No director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company at the Annual Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Outstanding Shares

There are [700,000,000] issued and outstanding common shares as of October 31, 2012. Each share is entitled to one (1) vote. The Company has only one (1) class of security.

(b) Record Date and Share Ownership

Only stockholders of record in the books of the Company at the close of business on, December 11, 2012 (the "Record Date") is entitled to vote at the Annual Meeting. Presence in person or by proxy of stockholders owning a majority of the issued and outstanding common shares as of the Record Date will be required for a quorum.

(c) Cumulative Voting

Pursuant to the Corporation Code, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock issued and outstanding as of the Record Date, in his own name in the stock and transfer book of the Company; and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the number of directors to be elected. The formula may be stated as follows: Number of shares held on Record Date x number of directors to be elected = Total votes that may be cast. This right to cumulative voting is expressly recognized in Article V of Section 8 of the Amended By-Laws of the Company.

(d) (1) Security Ownership of Certain Record and Beneficial Owners as of November 29, 2012.

Title of class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of class
Common	Citivest Asia Limited 24/F Lippo Tower, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Citivest Asia Limited 24/F Lippo Tower, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Foreign	322,314,874	46.05%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue Makati City (No Relationship with Issuer)	Various beneficial owners, each having less than 5%.	Filipino	141,063,144	20.15%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue Makati City (No Relationship with Issuer)	Various beneficial owners, please see below for beneficial owner with more than 5%.	Foreign	56,254,012	8.04%

Mr. Dionisio E. Carpio, Jr., or in his absence, Mr. Bobby Cheng Sai Chong is appointed as the representative of Citivest Asia to attend and vote at the stockholders' meeting of the Company. Messrs. Dionisio E. Carpio, Jr, and Bobby Cheng Sai Chong have no relationship with Citivest Asia Limited , except that they have been the regular appointees of Citivest Asia for purposes of attending and voting on behalf of Citivest Asia at the stockholders' meeting of the Company in accordance with its instructions.

The record owners of more than five percent (5%) of the outstanding shares of PCD Nominee Corp. as of November 29, 2012 are:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common	SB Equities, Inc. 18/F Security Bank Centre Ayala Avenue.Makati City	Lippo Securities Limited	Foreign	47,650,012	6.80%
			TOTAL	47,650,012	

(2) Security Ownership of Management

To the extent known to the Board of Directors, there is no security ownership of Management, other than directors' qualifying shares. The record ownership of shares of the Board of Directors is as follows, as of November 29, 2012:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common Stock	Dionisio E. Carpio, Jr.	1,008	(direct)	Filipino	Nil
Common Stock	Edna D. Reyes	50,000	(direct)	Filipino	Nil
Common Stock	Solomon R.B. Castro	11	(direct)	Filipino	Nil
Common Stock	Pauline C. Tan	1	(direct)	Filipino	Nil
Common Stock	Caly D. Ang	1	(direct)	Filipino	Nil
Common Stock	Say Hing Wong	1	(direct)	British	Nil
Common Stock	Bobby Cheng Sai Chong	1	(direct)	British	Nil
	TOTAL	51,023			

All of the directors own one (1) qualifying share, except for Mr. Dionisio E. Carpio, Jr . who owns 1,008 shares in the Company, of which 1,000 shares for himself and 8 shares held by him for and on behalf of Citivest Asia Limited; Solomon R.B. Castro owns 11 shares for and on behalf of Citivest Asia Limited; and Mrs. Edna Reyes who owns 50,000 shares for herself.

The corporate secretary of the Company, Atty. Alex Erlito S. Fider, does not own any share in the Company.

(3) Voting Trust Holders of Five Percent (5%) Or More

None.

(4) Changes in Control

At present, there are no arrangements which may result in a change in control of the Company.

Item 5. Directors and Executive Officers

(a) (1) Directors and Positions Held/Business Experience for the Last Five (5) Years

The current members of the Company's Board of Directors together with a description of their other positions held and business experience for the last five years are enumerated as follows:

BOBBY CHENG SAI CHONG, British, age sixty three (63), has been a director of the Company since September 18, 2006 and has been appointed as the Chairman of the Board of Directors on July 23, 2009. He is also a director of Export and Industry Bank, Inc. from November 1999 to the present and is a senior vice president there for central processing group from October 30, 2006 to the present and was previously a Vice president there from November 1999 to February 28, 2004. He has more than thirty (30) years experience in banking and finance.

DIONISIO E. CARPIO, JR., Filipino, age sixty-six (66), has been a director of the Company since 1998 and its President from September 2006 up to present. He was the treasurer of the Company from 1998 to 2006. He is the senior vice resident, treasurer and director of MAIC since September 1, 1997 up to present. He is also a director of Export and Industry Bank, Inc. (“EIB”) since 2000 to the present, and ValueGen Financial Insurance Company, Inc. and BancLife Insurance Co., Inc. from 2004 to the present. Before joining MAIC in 1995, he was connected with Far East Bank and Trust Company. Mr. Carpio holds a Bachelor of Science degree in Mechanical Engineering from the De La Salle University and a Masters degree in Business Management from the Asian Institute of Management. He has more than thirty (30) years experience in commercial, investment and trust banking, as well as line management.

CALY D. ANG, Filipino, age sixty four (64), has been a director of the Company and of MAIC since 1995. She has been an independent director of the Company and of MAIC since 2006. She is the president and general manager of Multi-World Philippines International, Inc. from 1989 up to the present and a director and president of Concord World Properties, Inc. from 1991 to the present. She graduated from Adamson University, Manila obtaining a Bachelor of Science degree in Commerce in 1969 and a MBA from the same institution in 1971.

SOLOMON R. B. CASTRO, Filipino, age forty four (44), has been a director of the Company since 1998 to the present. He has been an independent director of the Company since 2002. He used to be the corporate secretary and vice-president-legal counsel of MAIC from May 1997 to August 1998. He is the president and director of KBC Realty Corporation since 1996 to the present. He is also the managing director of Bellwether Advisory, Inc. since 2006 up to the present. He is a member of the Philippine bar. He holds a Bachelor of Science degree in Business Administration and a Bachelor of Laws degree from the University of the Philippines. He also has a Master of Laws degree from Cornell University, New York. His practice areas include banking and finance, securities regulation, mergers and acquisitions, and general corporate law.

EDNA D. REYES, Filipino, age sixty five (65), has been a director of the Company since 2000 and was its Treasurer between 2006 and 2007. She is a director of MAIC and is also a director of Export and Industry Bank, Inc. since March 2, 2007 and was also previously a director thereof from 2004 up to October 10, 2006. She has more than thirty (30) years experience in banking, particularly in international and correspondent banking as well as foreign operations. She has a Bachelor of Science degree in Commerce from the University of Santo Tomas.

PAULINE C. TAN, Filipino, age forty two (42), has been a director of the Company since 2009. She has been the treasurer and compliance officer of the Company since September 20, 2007. She was connected with the Hong Kong Chinese Bank in 1994. From 1995 to 1999 she was a director of Lippo Securities, Inc. and MAIC and from 1995 to 2000 of Manila Exposition Complex, Inc. She was also the Managing Director of Sung Hung Kai Securities Philippines, Inc. from 1999 to June 2000.

SAY HING WONG, British, age sixty three (63), is a director of the Company. He has been a director of the Company since 2003 to the present. He graduated from Hong Kong Polytechnic 6t HK Management Association, obtaining a diploma in Management Studies. He has over twenty (20) years experience in commercial banking and management of financial institutions.

All of the incumbent directors stand for re-election to the Board of Directors.

(2) Procedure for the Nomination and Election of Directors, including Independent Directors

In compliance with SRC Rule 38, the Manual of Corporate Governance of the Company provides the following guidelines on the nomination and election of directors, including independent directors:

a. The Nomination Committee shall pre-screen and shortlist all candidates nominated to become a member of the Board of Directors in accordance with the following qualifications and disqualifications:

Qualifications:

- Holder of at least one (1) share of stock of the Company;
- He shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- He shall be at least twenty one (21) years old;
- He shall have proven to possess integrity and probity; and
- He shall be assiduous.

Disqualifications:

- Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;
- Any person finally found by the SEC or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the SRC, the Corporation Code, or any other law administered by the SEC or Bangko Sentral ng Pilipinas ("BSP"), or any rule, regulation or order of the SEC or BSP;
- Any person judicially declared to be insolvent;
- Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

b. Any of the following shall be a ground for the temporary disqualification of a director:

- Refusal to fully disclose the extent of his business interest as required under the SRC and the implementing Rules and Regulations thereof. This qualification shall be in effect as long as his refusal persists;
- Absence or non-participation for whatever reason/s for more than 50% of all meetings, both regular and special, of the Board of Directors during the incumbency, or any twelve (12)-month period during said incumbency. In view of the modern technology, however, attendance at Board meetings through teleconference or videoconference will be allowed. This disqualification applies for purposes of the succeeding election;
- Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
- Being under preventive suspension by the Company;
- If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director; or
- Conviction that has not yet become final referred to in the grounds for disqualification of directors.

c. The Nomination Committee shall consider the following guidelines in the determination of the number of directorships for the Board:

- The nature of the business of the corporations which he is a director;
- Age of the director;
- Number of directorships/active memberships and officerships in other corporations or organizations; and
- Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties diligently in general.

The members of the Nomination Committee are Mr. Solomon R. B Castro (Chairman), Mr. Say Hing Wong and Mr. Bobby Cheng Sai Chong.

The following were nominated by Mr. Dionisio E. Carpio, Jr., an incumbent director and officer of the Company, and determined by the Nomination Committee to be qualified to constitute the Final List of Candidates:

<u>Nominees for Regular Directors</u>

1. Mr. Dionisio E. Carpio, Jr.
2. Mr. Bobby Cheng Sai Chong
3. Ms. Edna D. Reyes
4. Ms. Pauline C. Tan
5. Mr. Sai Hing Wong

<u>Nominees for Independent Directors</u>

1. Ms. Caly D. Ang
2. Mr. Solomon R. B. Castro

The nominees for directors as listed above are incumbent directors of the Company inclusive of the independent directors. Other than being a fellow director and an officer of the Company, Mr. Dionisio E. Carpio, Jr. does not have any relationship with the nominated independent directors, Ms. Caly D. Ang and Mr. Solomon R.B. Castro.

Mr. Solomon R. B. Castro has been an independent director since 2002. Ms. Caly D. Ang has been an independent director since 2006. Both Mr. Castro and Ms. Ang possess all the qualifications and none of the disqualifications of an independent director.

The members of the Board of Directors to be elected at the Annual Meeting shall serve for a term of one (1) year or until their successors shall have been elected and qualified.

(3) <u>Executive Officers</u>

The following are the principal officers of the Company:

Chairman of the Board	-	Bobby Chong Sai Cheng
President	-	Dionisio E. Carpio, Jr.
Corporate Secretary	-	Alex Erlito S. Fider
Treasurer	-	Pauline C. Tan
Assistant Corporate Secretary, Chief Accountant and Corporate Information Officer	-	Ma. Lourdes B. Bathan

In addition to those already shown above, the following is description of the other positions held by the remaining principal officers and their business experience for the last five years:

ALEX ERLITO S. FIDER, Filipino, age fifty nine (59), is the corporate secretary of the Company. He has been the corporate secretary since 2003 up to the present. He is a member of the Philippine Bar and a Senior Partner in Picazo Buyco Tan Fider & Santos. As an economics and law graduate of the University of the Philippines, he has many years of law practice in commercial, securities, civil, and public utilities law having served as lead counsel for various private and publicly held companies in a wide array of transactions involving corporate finance, acquisition, securities offering, debt restructuring and real estate development. He undertook studies in urban and regional planning and strategic business economics. He is a Fellow of the Philippine Institute of Corporate Directors.

MA. LOURDES B. BATHAN, Filipino, age thirty-nine (39), is the corporate information officer of the Company. She has been the corporate information officer since 2003 up to present. She is also the principal accounting officer of the Company since 1998 up to present. She is a member of the Philippine Institute of Certified Public Accountants. She has more than ten years of experience in private accounting and three years experience in public practice as an auditor.

(4) <u>Significant Employees</u>

There are no other employees who are expected by the Company to make a significant contribution to its business. Moreover, the business of the Company is not highly dependent on the services of certain key personnel.

(5) <u>Family Relationship</u>

None.

(6) <u>Involvement in Certain Legal Proceedings</u>

Based on their individual responses after due inquiry as of October 31, 2012, none of the following events occurred with respect to any of the foregoing nominees and executive officers during the past five (5) years that would be material to an evaluation of their ability or integrity to act as directors or executive officers of the Company, except as otherwise indicated below:

(i) Any bankruptcy petition filed by or against any business of which the nominee was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time. On 26 April 2012, Export and Industry Bank ("EIB"), pursuant to Monetary Board ("MB") Resolution No. 686 dated 26 April 2012, was ordered closed by the MB of the Bangko Sentral ng Pilipinas ("BSP") and was placed under the receivership of the Philippine Deposit Insurance Corporation. Mr. Bobby Cheng Sai Chong was a Senior Vice-President of EIB up to 31 December 2011.

(ii) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(iii) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the nominee's involvement in any type of business, securities, commodities or banking activities; and

(iv) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

(7) Certain Relationships and Related Transactions During the Last Two (2) Years

Please refer to Note 13 of the audited financial statements (Annex "A")

The Company and its subsidiary, in the ordinary course of business, grant to and obtain advances from certain affiliated companies. In addition, Medco Asia Investment Corp. also leases its office space from affiliate Capital Place International Limited for a period one year with an annual rental of P1,219,384 for the year ended December 31, 2011.

(8) Parent-Subsidiary Relationships

The parent-subsidiary relationships of the Company are discussed in the section entitled "Brief Description of the General Nature and Scope of the Business of Medco Holdings, Inc. and Its Subsidiaries" of the Management Report of the Company.

Details of the principal parent companies of the Company showing the basis of control and percentage of voting securities owned by its immediate parent, if any, as of November 29, 2012 are as follows:

Name	Place of Incorporation	Parent Company	Percentage of Equity Owned by Parent Company
Medco Holdings, Inc.	Philippines	Citivest Asia Limited	46.045%
Citivest Asia Limited	British Virgin Islands	Lippo China Resources Limited	100%
Lippo China Resources Limited	Hong Kong	Lippo Limited	71.1%
Lippo Limited	Hong Kong	Lippo Cayman Limited	57.34%

Details of the principal subsidiary and affiliated companies and their activities as of November 29, 2012 are as follows:

Name	Place of Incorporation	Fully paid-up common share capital	Percentage of Equity Ownership of Medco Holdings, Inc.	Principal Activities
Medco Asia Investment Corp. (formerly, Lippo Asia Investment Corp.	Philippines	P269,250,000	64.54%	Investment Banking
[Export & Industry Bank, Inc.]	Philippines	P4,734,452,540	2.45%	Commercial Banking
Manila Exposition Complex, Inc.	Philippines	P165,000,000	18.18%	Exhibition Hall Operation

(b) Others

No one has resigned or declined to stand for re-election to the Board of Directors since the last stockholders' meeting due to any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

The Board of Directors has no reason to believe that any of the said nominees will be unwilling or unable to serve if elected as a director. Each director shall serve until the next annual meeting of the stockholders or, in case of vacancy due to resignation, until his successor is elected or appointed. The seven (7) candidates for election as directors at the Annual Meeting who receive the highest number of affirmative votes will be elected.

Item 6. Compensation of Directors and Executive Officers

(a) Annual Compensation of the Top Executive Officers of the Company

Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**
Dionisio E. Carpio, Jr. (President)	2008	None	None	P45,000
	2009	None	None	P45,000
	2010	None	None	P45,000
	2011	None	None	P45,000
	2012 (Estimated)	None	None	P45,000
Pauline C. Tan (Treasurer and Compliance Officer)	2008	P1,200,000	None	None
	2009	P1,200,000	None	None
	2010	P1,200,000	None	None
	2011	P1,200,000	None	None
	2012 (Estimated)	P1,200,000	None	None
Ma. Lourdes B. Bathan (Corporate information officer)	2008	P720,000	None	None
	2009	P720,000	None	None
	2010	P720,000	None	None
	2011	P720,000	None	None
	2012 (Estimated)	P720,000	None	None
All Officers and Directors as a group	2008	P1,920,000	None	P315,000
	2009	P1,920,000	None	P315,000
	2010	P1,920,000	None	P315,000
	2011	P1,920,000	None	P315,000
	2012 (Estimated)	P1,920,000	None	P315,000

Notes:
1. The aforementioned Other Annual Compensation consists only *per diems* given to directors.
2. Each Director receives *per diems* of P2,000 for each board meeting.
3. The Corporate Secretary does not receive a salary but his law firm is paid a professional retainer fee.

(b) Compensation of Directors

Since the dates of their election, except for *per diems,* the Directors have served without compensation. Except for *per diems,* the Directors did not receive any other amount or form of compensation for committee participation or special assignments.

The Amended By-laws of the Company does not provide for compensation for the directors. As of the date of this Information Statement, no standard arrangements have been made in respect of director compensation. For the ensuing year, the Company does not foresee payment of compensation for directors, except reasonable *per diems* annually for each director. The Company, however, does not discount the possibility that director compensation other than reasonable *per diems* may be given in the future.

Pursuant to Article VI, Section 8 of the Amended By-Laws of the Company, such compensation may be fixed by the directors with the approval of a majority of the stockholders and will in no case exceed 10% of the net income before income tax of the Company for the preceding year.

(c) Employment Contracts

There are no formal employment contracts between the Company and its executive officers and other officers. The terms and conditions of their employment are governed by applicable laws.

(d) Warrants and Options Outstanding

There are no outstanding warrants and options held by the Company's directors, executive officers and other officers.

Item 7. Appointment of Independent Public Accountants

Five years ago, Punongbayan & Araullo, the Philippine representative of Grant Thornton International, was appointed as the new external auditor of the Company.

The re-appointment of Punongbayan & Araullo, the current independent auditor for the Company for the current year, represented by Mr. Christopher M. Ferareza, the partner–in-charge, will require the affirmative vote of a majority of the common shares of the Company present or represented and entitled to vote at the Annual Meeting.

The appointment of the partner-in-charge will be in compliance with SEC Rule 68, Paragraph 3(b)(iv) on the requirement on the rotation of external auditors.

A representative of the external auditor is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from the stockholders.

During the past three (3) fiscal years, there have been no disagreements with the independent auditors on accounting and financial disclosures.

External Audit Fees

In compliance with Memorandum Circular No. 14, Series of 2004, the following matters on the external audit fees are reported:

(a) Audit and Audit-Related Fees

The aggregate fees billed for the professional services rendered by Punongbayan & Araullo amounted to P592,600 in 2011 for the regular audit of the Company's annual financial statements in connection with the statutory and regulatory filings of the Company.

The aggregate fees billed for the professional services rendered by Punongbayan & Araullo amounted to P550,000 in 2010 for the regular audit of the Company's annual financial statements in connection with the statutory and regulatory filings of the Company.

There was no other assurance or related services rendered for tax accounting, compliance, advice, planning and any other form of tax services.

(b) Tax Fees

For the last 2 fiscal years, the Company did not engage the services of an external auditor for tax-related services.

(c) All Other Fees

For the last 2 fiscal years, the Company did not engage the services of an external auditor for products and services other than the regular annual auditing services

(d) Audit Committee's Approval Policies and Procedures

The Audit Committee meets with the external auditor to plan and discuss the matters to be audited including any accounting issues. The draft of the audited financial statements must be approved by the Audit Committee before the same is finalized by the external auditor.

In selecting the external auditor, the Audit Committee evaluates the integrity and competence of the proposed external auditor and limits its selection to SEC-accredited external auditors only.

Under the Corporation's Manual of Corporate Governance, the audit committee shall be composed of at least three (3) members of the Board, one (1) of whom shall be an independent director. The chairman of this Committee should be an independent director. Each member shall have adequate understanding at least or competence at most of the company's financial management systems and environment.

The Audit Committee has the following duties and responsibilities:

1. Check all financial reports against its compliance with pertinent accounting standards, including regulatory requirements.
2. Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.
3. Pre-approve all audit plans, scope and frequency one (1) month before the conduct of the external audit.
4. Perform direct interface functions with the external auditors.
5. Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
    a. Definitive timetable within which the accounting system of the Corporation will be 100% International Accounting Standards (IAS) compliant.
    b. An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
6. Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the company through a step-by-step procedures and policies handbook that will be used by the entire organization.

The members of the Audit Committee of the Company are Ms. Caly D. Ang (Chairman), Mr. Dionisio E. Carpio, Jr. (Member), and Ms. Edna D. Reyes (Member).

D. OTHER MATTERS

Item 15. Action with Respect to Reports

The following reports/minutes shall be submitted for approval/ratification:

Approval of Minutes of the Annual Meeting of the Stockholders held last December 28, 2011

The Minutes of the Annual Meeting of the stockholders of the Company held on December 28, 2011 will be presented for approval of the stockholders. Such action on the part of the stockholders will not constitute approval or disapproval of the matters referred to in the Minutes since the stockholders' approval and action on those items have already been obtained in those meetings and subsequently carried out.

The Minutes and related records are available for inspection by any stockholder at the office of the Company at any reasonable hour during business hours. Copies of the Minutes and other records may be furnished upon written request at the stockholder's expense. In addition, copies of the Minutes shall be distributed among the stockholders present in the Annual Meeting for their review and consideration.

The Minutes of the Annual Meeting of the stockholders held on December 28, 2011 pertain to the following matters:

a. Approval of the minutes of the annual meeting of stockholders held on October 8, 2010;

b. Approval of the Annual Report and the Audited Financial Statements as of December 31, 2010;

c. Approval and ratification of the acts, contracts, investments and resolutions of the Board and management of the Corporation since the last annual meeting on October 8, 2010;

d. Election of the following members of the Board of Directors for the year 2011;

   i. Mr. Sai Hing Wong;
   ii. Mr. Dionisio E. Carpio, Jr.;
   iii. Ms. Edna D. Reyes;
   iv. Mrs. Caly D. Ang (independent director);
   v. Mr. Solomon R. B. Castro (independent director); and
   vi. Mr. Bobby Cheng Sai Chong.
   vii. Ms. Pauline C. Tan

e. Appointment of Punongbayan & Araullo, the Philippine representative of Grant Thornton International, as external auditors of the Corporation for the year 2011;

Approval of the Annual Report and Audited Financial Statements for 2011

The 2011 Management Report and the Audited Financial Statements of the Company for the period ended December 31, 2011 together with the accompanying notes to financial statements prepared by Punongbayan & Araullo (collectively, the "Financial Statements") will be submitted for approval of the stockholders at the Annual Meeting.

The information and representations in the Financial Statements are the responsibility of the Management of the Company. The Financial Statements have been prepared in conformity with generally accepted accounting principles. The Board of Directors reviewed the Financial Statements before their submission for approval to the stockholders. Punongbayan & Araullo had examined the Financial Statements in accordance with generally accepted auditing standards and had expressed their opinion on the fairness of the presentation in their report to the Board of Directors and stockholders of the Company.

Approval of the Management Report and the Financial Statements for 2011 requires the affirmative vote of a majority of the votes cast at the Annual Meeting by the stockholders entitled to vote thereon.

Ratification of All Acts, Contracts, Investments and Resolutions of the Board of Directors and Management since the last Annual Meeting

The stockholders shall consider the approval and ratification of all the significant acts, contracts, investments and resolutions of the Board of Directors and Management since the date of the last annual meeting, December 28.2011.

12 April 2012	Approval of the Audited Financial Statement for the year ended December 31, 2011

There were no other significant acts, contracts or investments of the Board of Directors other than those done in the regular course of the business of the Company.

Item 19. Voting Procedures

The voting procedure will be the same as in the previous years. Stockholders of record as of December 11, 2012 may vote at the scheduled stockholders' meeting. Registration of stockholders and proxies attending the meeting will open at 9:00 a.m. on December 28, 2012.

In case of balloting, only stockholders and proxies who have previously registered will be given ballots. The ballots will be distributed at the registration desks. Upon being given a ballot, a stockholder/proxy should sign the stockholder/proxy registration list beside his/her signature placed earlier during registration.

After casting his/her vote, the stockholder/proxy may place his/her ballot inside any of the ballot boxes clearly marked as such and located at designated areas at the place of the meeting. Stockholders/proxies will be given a sufficient period of time to vote. Thereafter, auditors will proceed to collect the ballot boxes and canvass the votes.

All questions and elections shall be decided by majority vote of the stockholders present and in proxy and entitled to vote thereat.

The following matters require the following votes:

Subject Matter	Votes Required
Reappointment of Punongbayan & Araullo	Majority of the votes cast
Ratification of all acts, contracts, investments and resolutions of the Board of Directors and Management	Majority of the votes cast
Approval of Minutes of the Annual Stockholders' Meeting	Majority of the votes cast
Approval of the Financial Accounts	Majority of the votes cast
Election of Directors	The top seven (7) nominees with the most number of votes are elected

Copies of the Company's Audited Financial Statements for the years December 31, 2011 and December 31, 2010 (Annex "A"), and unaudited Financial Statements for the Third Quarter Ending September 30, 2012, Second Quarter Ending June 30, 2012 and First Quarter Ending March 31, 2012 are also submitted herewith as Annexes "B," "C" and "D", respectively.

A FREE COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A WILL BE MADE AVAILABLE UPON WRITTEN REQUEST ADDRESSED TO MS. MA. LOURDES B. BATHAN WITH OFFICE ADDRESS AT THE 31ST FLOOR, RUFINO PACIFIC TOWER, 6784 AYALA AVENUE, MAKATI CITY, METRO MANILA, PHILIPPINES. HOWEVER, A REASONABLE FEE SHALL BE CHARGED FOR THE REPRODUCTION OF EXHIBITS THEREOF.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 4 December 2012.

MEDCO HOLDINGS, INC.
By:

Dionisio E. Carpio, Jr.
President

MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2011, 2010 AND 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the section on "Brief Description of the General Nature and Scope of Business of Medco Holdings, Inc. and Its Subsidiaries" of this Report, the Audited Financial Statements and the related Notes to Financial Statements.

Plan of Operation

The Company incurred recurring net losses of P158,503,160, P226,284,153, and P6,844,586 on a consolidated basis for the years ended December 31, 2011, 2010 and 2009, respectively. The Company also reported deficits of P823,964,320 and P720,393,526 as of December 31, 2011 and 2010, respectively. Despite having incurred such deficits, management believes that the Company will be able to turnaround and achieve positive operations in future years.

As at December 31, 2011, the equity attributable to the stockholders of the parent company, as stated in the balance sheets, has resulted to a capital deficiency amounting to P98,822,020 on a consolidated basis. In view of this, management is currently in the process of finalizing its plans to recapitalize the Company. Such plans are intended to be implemented within the year 2012.

The Company is confident that it can satisfy its cash requirements not only in the next twelve (12) months but also on a long term basis. It has substantial liquid assets on a consolidated basis, which as at December 31, 2011 consisted of P27.9 million of cash and cash equivalents and short-term investments. In case the Company has any unforeseen cash requirement that cannot be met by its internal sources, its external sources of liquidity would consist of advances from its affiliate companies and/or major shareholders.

In view of the still weak capital markets anticipated during the next twelve (12) months, the Company as well as its subsidiary, MAIC, will maintain its short-term investments in bank placements . Aside from this, MAIC will continue to focus on its corporate finance and fee-based services related to financial advisory and merger and acquisition projects during the current and succeeding years.

As of December 31, 2011, there are three (3) employees of the Parent Company. One was a clerical employee and the remaining two were administrative personnel. The Company does not anticipate any increase in its employees within the ensuing twelve (12) months.

Management's Discussion and Analysis

Results of Operations for the years ended December 31, 2011, 2010 and 2009

2011

Consolidated revenues for the year ended 2011 decreased by approximately 23.50% compared to the previous year's figure. Consolidated revenues for this year consisted mainly of fees and other commissions (58%), dividend income (25%), interest income from short-term placements (14%) and other income (3%).

The decline in the consolidated revenues was mainly due to the decline in the interest income from short-term placements and in dividend income. Interest income contracted because of the decrease in the deposit placements of the Company's subsidiary due to the payment of advances to affiliates and withdrawals for its working capital requirement. On the other hand, cash dividend received from Manila

Exposition Complex, Inc. decreased by 33% compared to last year. There was no change in the fees and other commissions account.

Consolidated expenses also declined by 30% compared to last year. The expenses were composed mainly of impairment loss (91%), employee benefits (4%), representation & entertainment (2%), professional and management fees (1%), and other expenses (2%).

The management of the Group decided to book a full impairment loss provision on the investment of the Company's subsidiary in Exportbank which has a carrying value of P148,746,260 as of December 31, 2011. Accordingly, impairment losses of P148,746,260 was recognized in 2011, in addition to the prior impairment losses already recognized in 2010 and 2009 amounting to P218,135,140 and P15,394,615, respectively.

2010

Consolidated revenues for the year ended December 31, 2010 decreased by 13% compared to the prior year's figure. During the year under review, revenues consisted of fees and other commissions (44%), dividend income (29%), interest income from short-term placements (16%), and other income (11%).

The decline in consolidated revenues was mainly due to the 30% decrease in interest income from short-term placements. Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased during the year versus the rates prevailing in the previous year.

On the other hand, consolidated expenses increased significantly by 1420% compared to last year due mainly to the incurrence of a substantial investment impairment loss. The expenses were composed of impairment loss in investment (93%), salaries & wages (3%), representation & entertainment (1%), professional fees (1%), occupancy (1%) and other expenses (1%).

The increase in the consolidated expenses resulted from the provision in the amount of P218 million for the impairment loss in the investment of the Company's subsidiary in Exportbank. The Company has deemed it necessary to make such a provision on said investment in anticipation of the potentially unfavorable effects of the pending EIB sale transaction with BDO.

Other components of expenses, such as salaries & wages, entertainment, taxes & fees as well other expenses posted a decrease in the year under review. This was the result of the Company's continuing cost-cutting measures. However, the occupancy expense increased by 15% this year as compared to last year's figure. This was because its office rental rate was adjusted in the year under review upon the renewal of the contract of lease. The rental rate adjustment was based on the prevailing market rate.

2009

Consolidated revenues for the year ended December 31, 2009 decreased by 16% relative to the prior year's figures. During the year under review, the revenue account consisted of fees and other commissions (38%), interest income from short-term placements (20%), dividend income (11%), and other income (31%).

The decline in the consolidated revenue was mainly due to the 35% decrease in interest income from short-term placements and the 17% reduction in the other income account.

Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased from an average rate of 2.70% to 2.80% during 2008 to an average rate of only 2.07% to 2.11% in 2009.

On the other hand, the decline in the other income account during the year under review was due to the unrealized foreign exchange loss incurred by the Company amounting to P0.383 million. The foreign exchange rate at the end of 2009 went down to P46.356 to a US Dollar compared to the P47.485 rate as of December 31, 2008. In contrast, an unrealized foreign exchange gain of P2.6 million was recorded in this account in 2008.

On the expense side, consolidated expenses declined by 25% compared to the previous year's figure. During the year under the review, expenses were mainly comprised of salaries and wages (42%), representation (18%), professional and management fees (14%), taxes and occupancy (13%) and other expenses (13%).

The decrease in consolidated expenses was mainly due to the non-incurrence of interest expense during the year as the Company's loans from a local bank were already fully paid as of December 31, 2008. Last year's interest expense accounted for 19% of the total expenses incurred in 2008.

The other components of expenses such as salaries & wages, entertainment, taxes & fees as well other expenses also posted a decrease in the year under review. Salaries & wages decreased by 3%, entertainment expense declined by 3%, taxes and licenses by 33% and other expenses by 36%. This was the result of the Company's continuing cost-cutting measures.

Financial Condition and Changes in Financial Condition

2011

As to the balance sheet as at the end of 2011, total assets declined significantly by 67% compared to last year. Total assets were mainly composed of available-for-sale financial assets (44%), cash and cash equivalents (39%), other assets (13%), and due from affiliates (4%).

As discussed in the foregoing results of operations for 2011, the decline in the total assets was mainly due to the full impairment of the investment of the Company's subsidiary in Exportbank which has a carrying value of P148,746,260. Thus, there was a zero balance in the investment in a subsidiary and an associate account as at the end of 2011.

A decline in the cash and cash equivalent account was also noted during the year under review. There was a substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliates and withdrawals for its working capital requirement.

On the other hand, the increase in the due from related parties account was due to the reclassification of accounts. In the previous year, the related party transactions were presented net of the due to and due from.

On the liabilities side, there was no significant change as compared to the prior year. The due to related party account comprised 98% of the total liabilities.

As at December 31, 2011, the total shareholders' fund of the Company on a consolidated basis resulted to a capital deficiency of P98.8 million. The significant decline was due to the impact of the aforementioned provision for the impairment loss in the investment of MAIC in Exportbank.

2010

With respect to the balance sheet as at the end of 2010, total assets declined significantly by 50% as compared to the end of last year. Total assets were composed mainly of investment in subsidiary and associate (65%), cash and cash equivalents (17%), available-for-sale financial assets (14%) and other assets (4%).

The decline was mainly due to the provision for the impairment loss in the investment of the Company's subsidiary in Exportbank. This provision resulted to a 60% decline in the investment in subsidiaries and an associate account. There was also a significant decrease of 36% in the loans and receivables account which was the result of the collection of accrued interest from deposit placements. A decline in the cash and cash equivalents account was also noted during the year under review. As mentioned above, there was substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

On the liabilities side, there was no significant change as compared to the prior year. The due to related party account comprised 80% of the total liabilities and equity account.

As at December 31, 2010, the total shareholders' fund of the Company, on the consolidated basis amounted to only ₱4.7 million, net of minority interest. The significant decline was due to the impact of the aforementioned provision for the impairment loss in the investment of MAIC in Exportbank.

2009

There was no significant change with respect to total assets as compared to the prior year. Like in the previous year, total assets were composed mainly of investment in subsidiary and associate (80%), cash and cash equivalents (11%), available-for-sale financial assets (7%) and other assets (2%).

Although there was a collection of interest receivable from deposit placements which caused the decline in the receivable account, the proceeds from collection were not sufficient for the Company's working capital requirements. There were withdrawals of funds to make up for the deficiency in working capital which reduced the cash and cash equivalent account by 11%.

On the other hand, the other assets account increased by 10% due to the continuing accumulation of creditable withholding tax and input tax.

On the liabilities side, in the normal course of its business, the Company obtained advances from its affiliates for working capital purposes and payment of liabilities to third parties. This account increased by 1% from the previous year.

As at December 31, 2009, the total shareholders' fund of the Company amounted to ₱151 million.

Prospects for 2012

As stated in the foregoing Plan of Operation, management is currently in the process of finalizing the first phase of its plan to recapitalize the Company, which is intended to be implemented within the current year.

Although the growth in the country's economy will likely taper off vis-à-vis the strong GDP performance exhibited last year, it is nevertheless expected to remain buoyant in 2012. Furthermore, local business sentiment as well as foreign investors' perception and interest in the Philippines as an investment venue remain favorable. Such positive factors augur well for the realization of the second phase of the Company's recapitalization plan involving the closing of a potential investment transaction that is envisioned to take place in the near term and which will be funded by way of a fresh capital infusion.

Key Variable and Other Qualitative and Quantitative Factors

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. There are also no material commitments for capital expenditure or any significant elements of income or loss from continuing operations. 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 December 31, 2011 consisted of P27.9 million of cash and cash equivalents and short-term investments. Its external sources of liquidity would consist of advances from its affiliate companies and/or major shareholders.

There are no events that will trigger direct or contingent obligation that is material to the Company, including any default or acceleration of an obligation.

There are also no material off-balance sheets transactions, arrangements, obligations (including contingent obligation), and other relationships of the Company with unconsolidated entities or other persons created during the period.

Furthermore, there were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. Aside from those already mentioned above, the Company is also not aware of any events that will cause a material change in the relationship between the costs and revenues.

Results of Operations for September 30, 2012, 2011, and 2010

2012- Third Quarter Financial Highlights

Total consolidated revenues for the third quarter of 2012 decreased by 72% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (59%), fees and other commission (29%), and interest income from short-term placement (12%). The decline in consolidated revenues was mainly due to the significant decrease in fees and other commission and dividend income. Interest income also contracted because of the substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

On the other hand, total consolidated expenses for the third quarter of 2012 increased by 3.8% compared to last year's quarter. The increase was mainly due to the unrealized foreign exchange loss amounting to P0.60 million that resulted from the restatement of the dollar deposit placement.
The expenses for this quarter were composed of salaries and wages (49%), occupancy (11%), representation (10%), unrealised foreign exchange loss (6%), loss on sale of available for sale securities (5%), professional fees (4%), and other expenses (15%).

As to the balance sheet as at the end of this quarter, total assets decreased by 13.7% as compared to last year. As mentioned above, there was a substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirements. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2011. Likewise, the decrease in the due from related parties account resulted from the collection of advances from one if its affiliates. On the liabilities side, there were reclassification of accounts from the due to related parties to accounts payable and accrued expenses. The Due to Lippo China Resources account which was included in the due to related parties account was assigned to other third parties under the accounts payable and accrued expenses account.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2012 consisted of P18.7 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2011- Third Quarter Financial Highlights

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

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

On the other hand, consolidated expenses declined by 96% compared to last year's third quarter. The expenses were composed mainly of salaries & wages (43%), representation & entertainment (17%), professional fee (12%), Occupancy (11%), PSE fees (4%), and other expenses (13%).

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

As to the balance sheet as at the end of this quarter, there was no significant change in the total assets amount as compared to the end of last year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2010 and collection of advances made to related parties. On the liabilities side, accounts payable and accrued expenses likewise decreased by 28% due to the payment of liabilities accrued as of the same date.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2011 consisted of P31 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2010- Third Quarter Financial Highlights

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

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

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

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

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

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. In view of the booking of the aforementioned impairment loss provision by the Company's subsidiary that has resulted in the said subsidiary's inability to meet the prescribed capital requirement for an investment house, the subsidiary has filed a request with the Commission for the cancellation of its investment house license. Despite of this development, the Company does not anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2010 consisted of P40.7 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

Results of Operations for June 30, 2012, 2011, and 2010

2012- Second Quarter Financial Highlights

Total consolidated revenues for the second quarter of 2012 decreased by 65% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (61%), fees and other commission (30%), interest income from short-term placement (9%). The decline in consolidated revenues was mainly due to the significant decrease in fees and other commission and dividend income. Interest income also contracted because of the substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

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

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

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

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

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

<u>2011- Second Quarter Financial Highlights</u>

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

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

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

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

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

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

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

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

2010- Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2010 decreased by 16% compared to the prior year's second quarter figure. During the quarter under review, revenues consisted of fees and other commissions (58%), interest income from short-term placements (15%), and other income (27%).

The decline in consolidated revenues was mainly due to the 40% decrease in interest income from short-term placements. Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased from rates ranging from 2.50% to 6.00% in the second quarter of 2009, to rates ranging only from 1.25% to 4.00% in this year's second quarter.

On the other hand, consolidated expenses increased significantly by 2,989% compared to last year's second quarter. This was the result of the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. The expenses were composed mainly of impairment loss in investment (97%), salaries & wages (1.20%), representation & entertainment (0.6%), and other expenses (1.2%).

In the balance sheet as at the end of this quarter, total assets declined significantly by 48% as compared to as at the end of last year. The decline was mainly due to the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. amounting to P218 million. There was also a significant decrease of 78% in the loans and receivables account which was a result of the collection of accrued interest from deposit placements. On the liabilities side, accounts payable and accrued expenses decreased by 14% due to the payment of liabilities accrued on December 31, 2009.

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

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. In view of the booking of the aforementioned impairment loss provision by the Company's subsidiary that has resulted in the said subsidiary's inability to meet the prescribed capital requirement for an investment house, the subsidiary will file a request with the Commission for the cancellation of its investment house license. Despite of this development, the Company does not anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2010 consisted of P45 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.

The top five (5) performance indicators of the Company and its subsidiary, MAIC, for the past three (3) fiscal years are presented below:

a. Revenue Growth- This measures how fast the Company's business is expanding. The ratio shows the annualized rate of increase (or decrease) of the Company's revenues.

b. Net Income Growth- Similar to revenue growth, this ratio is an indicator of the rate of growth of the Company's bottom line figure.

c. Return on Equity- For an investor who wants to have an indication of his investment returns, this ratio provides such a measure.

d. Current Ratio- This ratio measures the Company's ability to pay its currently maturing obligations.

e. Debt-to-Equity Ratio- This ratio offers a method of assessing the company's financial health and gauging the balance sheet durability.

Top Five (5) Performance Indicators

December 31, 2011, 2010 and 2009

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2011	2010	2009	2011	2010	2009
1. Revenue Growth	Revenue Y1-Y0 / Revenue Y0	-23.50%	-13.01%	-16.31%	8.64%	-39.45%	-17.89%
2. Net Loss Growth	Net Loss Y1-Y0 / Net Loss Y0	-29.95%	-3206.03%	-33.09%	28.38%	6630.95%	32.80%
3. Return on Equity	Net Income / Ave. Stockholders' Equity	NA	-147.01%	-2.56%	NA	-220.52%	-1.02%
4.Current Ratio	Current Assets / Current Liabilities	0.15x	0.21x	0.27x	0.15x	0.43x	10.81x
5. Debt-to-Equity- Ratio	Total Liabilities / Stockholders' Equity	-1.61x	4.26x	0.71x	-1.23x	0.95x	0.30x

Note:

Y1= Current year

Y0= Previous year

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

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

* Losses
** Capital Deficiency in 2012

Note:
Y1= Current year
Y0= Previous year

BRIEF DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF BUSINESS OF MEDCO HOLDINGS, INC. AND ITS SUBSIDIARIES

Medco Holdings, Inc. (the "Company")

The Company is an investment holding company listed on the Philippine Stock Exchange ("PSE"). It was incorporated in the Philippines on 23 October 1969 as the Mindanao Exploration & Development Corporation and adopted its current name in 1995.

In May 1995, the Lippo Group through Citivest Asia Limited ("Citivest") acquired approximately 67% of the outstanding capital stock of Medco. In 1997, Citivest purchased additional Medco shares which increased its equity stake to 70.67%. The Lippo Group is a major Asia Pacific business conglomerate principally involved in financial services and investment activities such as commercial banking, securities and futures broking, merchant and investment banking, food operation, and property investment and development. It has operating units and representative offices in major Asian countries and in the United States of America. Citivest is a corporation organized under the laws of the British Virgin Islands and is a wholly-owned subsidiary of Lippo China Resources Limited (formerly Hongkong China Limited) ("LCR"), an investment holding company listed on The Stock Exchange of Hong Kong Limited and an integral corporate investment vehicle of the Lippo Group. LCR's subsidiaries are engaged in investment holding, property investment and development, estate management, food operation and department store business.

Prior to the Lippo Group's acquisition of a majority interest in the Company, Medco was engaged in mineral exploration and development. With the entry of the Lippo Group in the middle of fiscal 1995, the Company embarked on a major corporate shift that resulted in its transformation into an investment holding company. In line with the change in its primary business purpose, the Company had previously sold all its rights, titles, interests including all liabilities and obligations in its mining lease contracts and operating agreements to South Seas Oil & Mineral Exploration Development Co., Inc.

Thereafter, the Company has been engaged in investment holding activities. It does not produce or sell any product, or render any service. At present, its investment portfolio is composed of holdings in companies involved in financial services (commercial and investment banking) and trade development (operation of exhibition halls and conference facilities).

In December 2005, Citivest divested a portion of its shareholdings in the Company thereby reducing its equity stake to approximately 46%.

Details of the principal subsidiary and affiliated companies and their activities as of August 20, 2010 are as follows:

Name	Place of incorporation	Fully paid-up common share capital	Percentage of direct equity ownership of Medco	Principal Activities
Medco Asia Investment Corp. (Formerly Lippo Asia Investment Corp.)	Philippines	₱269,250,000	64.54%	Investment banking

Name	Place of incorporation	Fully paid-up common share capital	Percentage of direct equity ownership of Medco	Principal Activities
Export & Industry Bank, Inc.	Philippines	₱4,734,452,540	2.45%	Commercial banking
Manila Exposition Complex, Inc.	Philippines	₱165,000,000	18.18%	Exhibition hall operation

In 2011, seventy-four percent (74%) of the Company's revenues were contributed mainly by its principal subsidiary, MAIC, and comprised of commissions and fees (58%), dividend income (25%), interest income from placements and deposits (14%) and other income (3%). The dividend income was a cash dividend from Manila Exposition Complex, Inc.

Medco Asia Investment Corp. ("MAIC")- Formerly Lippo Asia Investment Corp.

In June 1996, Medco acquired an equity interest in MAIC (then named Lippo Asia Investment Corp.) a Philippine investment house. At present, MAIC has an authorized capital stock of P400 million and a paid-up capital of P269.25 million. Since its inception, MAIC has been duly licensed by the Securities and Exchange Commission (SEC) to engage in investment banking activities such as securities trading, debt and equity underwriting, private placements, structured finance and corporate financial advisory services.

On August 27, 1999, MAIC's board of directors and stockholders approved the change in the company's name from Lippo Asia Investment Corp. to Medco Asia Investment Corp. The change in corporate name was approved by the Securities and Exchange Commission on November 18, 1999.

On November 12, 1999, Medco remitted P 50.5 million to MAIC representing its deposit for an additional subscription of common shares of the company. This additional investment was made to enable the company to comply with the capital build-up program for investment houses. The approval of the SEC for the infusion of additional capital was granted on March 29, 2000, thereby raising Medco's equity stake in MAIC to 64.54%

In view of the still weak capital markets in 2008, MAIC continued to generate income mainly from its fixed income investments, while offering corporate finance and fee-based services to prospective clients involving loan arrangement, financial advisory and merger and acquisition work. MAIC will remain focused on these activities in the succeeding years. MAIC has no plans of offering or rendering any new services aside from its regular investment banking services.

On 10 August 2010 , MAIC filed with the SEC a request for the voluntary cancellation of its investment house license. MAIC has been somewhat inactive in the securities underwriting business and such inactivity is expected to continue indefinitely. MAIC also recognized an allowance for impairment loss on its investment in common shares of Export and Industry Bank, Inc., which comprised almost 79% of its total assets as of December 31, 2010. Such impairment will result MAIC's inability to maintain the capital requirement for investment houses under the Investment Houses Law. On 9 December 2010, MAIC submitted the original copy of its Investment House license to the SEC to comply with the condition precedent set by the SEC then for the issuance of the clearance for the cessation of its operations as an Investment House. As of this writing, MAIC has not yet received the SEC's formal approval on its request.

Export & Industry Bank, Inc. ("Exportbank")

Exportbank is engaged in the business of commercial banking and of trust and funds management, and exercises all the powers of a commercial bank, trust company, and a corporation in general, as provided for under the General Banking Act, as amended, the rules and regulations of the Bangko Sentral ng Pilipinas, the Corporation Code of the Philippines and other applicable laws.

In May 2001, Exportbank signed an agreement with the major stockholders of Urban Bank, Inc. (UBI) and Urbancorp Investments, Inc. (UII) for the rehabilitation of UBI and UII through a merger with Exportbank. UBI, a commercial bank, was reopened as a result of the said merger with Exportbank. The merger of Exportbank, UBI and UII, with UBI as the surviving entity, took effect on February 1, 2002, whereupon the name of UBI was immediately changed to Export and Industry Bank, Inc.. Thereafter, the Company's interest in Exportbank decreased from 29.83% to 17.49%.

In October 1, 2003, the Corporation listed 2.73 Billion common shares with a par value of PHP 1.00 in the Philippine Stock Exchange (PSE). This was done simultaneously with the lifting of the suspension of trading of Urban Bank shares as approved by the PSE. Shares formerly traded with stock symbol URB were since then traded under the new stock symbol EIB.

On May 25, 2005, pursuant to Section 17 (c) of Republic Act (RA) No. 3591, as amended, PDIC approved the grant of further assistance to Exportbank under the Memorandum of Agreement dated December 29, 2005 (the "Agreement"), anchored on the requirements of a new capital infusion in Exportbank of at least Php3.0 billion from major stockholders and the sale of a pool of assets consisting of UBI and UII non-performing assets (NPAs) with a gross book value of Php10.0 Billion. These NPAs were to be sold for a total consideration of Php3.0 Billion, together with the provision for other financial assistance in the form of (a) ten-year income support mechanism pegged to a principal amount of Php7.0 Billion or 70% of the balance of the Php10.0 Billion gross book value of the asset pool, under which the liability to the PDIC will be charged an interest rate of 1% and the government securities in which the proceeds of such liability will be invested in and which will be pledged with the PDIC to secure the liability will earn market rates of interest for the bank, and (b) a ten-year subordinated debt amounting to Php2.0 Billion qualified as tier 2 capital at an interest of 1% for the first five years and 5% for the last five years, subject to a provision that would require the bank to pay more interest in the event that the cumulative income for the ten years that the debt is outstanding exceed the agreed amount that was projected for that period. On May 26, 2005, the BSP likewise approved the grant of said rehabilitation assistance and certain regulatory relief, such as, among others, (1) the staggered booking of the write off of deferred income tax and goodwill accounts totaling Php1.8 Billion over 10 years; (2) the staggered booking over 15 years of the write-off of taxes and other related expenses in connection with the sale of said NPAs, under a programmed amortization with provision for acceleration; (3) the staggered booking of losses on sale of the said NPAs over 15 years, likewise under a programmed amortization with provision for acceleration.

Pursuant to the foregoing Agreement with PDIC, the major shareholders infused additional equity in two tranches: first in the last semester of 2005 and then in 2006, that brought the cumulative new capital infusion to Php3.0 Billion, which was primarily aimed at strengthening the bank's capital base to meet the new requirements of the PAS 39 and other international accounting standards that were being implemented by the BSP. Likewise in 2006, all of the bank's then-outstanding preferred shares were converted into common shares. Furthermore, the sale of the UBI/UII NPAs was effected in 2006 and this enabled Exportbank to significantly reduce its NPA ratio and improve its profitability. With the completion of the above transactions, including the new capital infusion, Exportbank achieved a stronger statement of condition and a risk-based adequacy ratio that was well within the BSP prescribed ratio for commercial banks.

As result of the foregoing new capital infusion in Exportbank and the concurrent conversion of the bank's outstanding preferred shares into common shares, the Company's direct equity interest in the bank got diluted and decreased from 17.49% to 2.45%.

Then, in the later part of 2009, Exportbank started discussions with various prospective investors for the purpose of further augmenting the bank's capital as well as exploring other related viable options with such investors along those lines, On July 16, 2010, the BSP granted its approval-in-principle on the proposed sale to Banco de Oro Universal Bank, Inc. (BDO) of all of Exportbank assets in consideration for BDO's assumption of all of Exportbank liabilities, including all of its deposit liabilities, subject to the execution of appropriate documentation and the fulfillment of certain closing conditions. On September 20, 2010, the Exportbank shareholders approved the proposed transaction with BDO.

Finally, on April 13, 2011, PDIC approved the proposed transaction, subject to the execution of definitive documentation and the fulfillment of certain closing conditions, including the final approval of the BSP Monetary Board

On April 26, 2012, the Monetary Board, in its Resolution No. 686 dated 26 April 2012, decided to prohibit the Export and Industry Bank, Inc., from doing business in the Philippines and to place its assets and affairs under receivership pursuant to Section 30 of Republic Act (R.A.) No. 7653 (The New Central Bank Act). The Philippine Deposit Insurance Corporation has been designated as Receiver of the aforementioned commercial bank.

Other Subsidiary

Manila Exposition Complex, Inc. is not a significant subsidiary of the Company.

COMPLIANCE ON THE CORPORATE GOVERNANCE

a. Evaluation System established by the company to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

   The Company has accomplished and submitted its Corporate Governance Self-Rating Form ("CG-SRF") to the SEC. The Company reviews the specific policies and regulations on the CG-SRF and determines whether it fully complies with it. Any deviation is immediately discussed among the members of the management. As of this date, the Company has sufficiently complied with its Manual on Corporate Governance. There has been no deviation from the Manual on Corporate Governance. At the end of each fiscal year, the Company submits a certification of the attendance of its directors in meetings of the Board of Directors.

b. Measures being undertaken by the company to fully comply with the adopted leading practices on good corporate governance.

   To strictly observe and implement the provisions of its Manual of Corporate Governance, the following penalties are imposed, after notice and hearing, on the company's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of the Manual of Corporate Governance:

   - In case of first violation, the subject person shall be reprimanded.
   - Suspension from office shall be imposed in case of second violation.
   - The duration of the suspension shall depend on the gravity of the violation.
   - For third violation, the maximum penalty of removal from office shall be imposed.

   The commission of a third violation of the Manual of Corporate Governance by any member of the board of the company or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

   The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

c. Any deviation from the company's Manual of Corporate Governance. Including a disclosure of the name and position of the persons involved and sanctions imposed on said individual.

   As of this date, the Company has sufficiently complied with its Manual on Corporate Governance. There has been no deviation from the Manual on Corporate Governance.

d. Any plan to improve corporate governance of the company.

   The Company accomplishes and submits its Corporate Governance Self-Rating Form ("CG-SRF") to the SEC annually. The Company reviews the specific policies and regulations on the CG-SRF and determines whether it fully complies with it. Any deviation is immediately discussed among the members of the management.

MARKET PRICE AND DIVIDENDS ON THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market Information

The Company's common shares are listed and traded on the PSE. However, the Company requested for a voluntary trading suspension on 2 August 2010 and the request was granted by the Philippine Stock Exchange on 3 August 2010. The closing price of P0.49 per share was the last recorded transaction prior to its voluntary trading suspension. As of 29 November 2012, the trading of shares of the Company is still suspended.

The high and low price for the each quarter of 2010 were as follows:

1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
High	Low	High	Low	High	Low	High	Low
P 0.59	P0.36	P0.42	P0.34	P0.60	P0.38	None	

The high and low prices for each quarter of 2009 were as follows:

1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
High	Low	High	Low	High	Low	High	Low
P0.28	P0.14	P 0.23	P0.12	P0.23	P0.15	P0.90	P0.22

The high and low prices for each quarter of 2008 were as follows:

1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
High	Low	High	Low	High	Low	High	Low
P0.58	P0.33	P 0.41	P0.33	P0.49	P0.30	P0.32	P0.115

(2) Holders

Based on the records of the Company's stock transfer office, Philippine Stock Transfer, Inc., as at 29 November 2012, there were 687 holders of the common stock of the Company. Below are the names of the top 20 shareholders and the number of shares and the percentage of total shares outstanding held by each stockholder.

MEDCO HOLDINGS, INC.
LIST OF TOP 20 STOCKHOLDERS
As of 29 November 2012

RANK	NAME	Nationality	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
1	Citivest Asia Limited	Foreign	322,314,874	46.0450%
2	PCD Nominee Corporation-Filipino	Filipino	141,063,144	20.1519%
3	PCD Nominee Corporation-Non-Filipino	Foreign	56,254,012	8.0363%
4	Clariwealth Investment Limited	Foreign	34,500,000	4.9286%
5	Green Target Limited	Foreign	34,500,000	4.9286%
6	Prowealth Asia Limited	Foreign	34,500,000	4.9286%
7	Sinojade Limited	Foreign	34,500,000	4.9286%
8	Suncentury Asia Limited	Foreign	34,500,000	4.9286%
9	Li Chih Hui	Filipino	3,300,000	0.4714%
10	Rexlon Gatchalian	Filipino	1,000,000	0.1429%
11	Rodrigo, Raul	Filipino	1,000,000	0.1429%
12	Lim, Teczon L.	China	400,000	0.0571%
13	Lo, Eduardo	Filipino	394,000	0.0563%
14	Cordova, Lawrence	Filipino	350,000	0.0500%
15	Belson Sec., Inc. A/C #196-358	Filipino	300,000	0.0429%
16	Marita Ibardolaza	Filipino	100,000	0.0143%
17	Sy, Leticia C.	Filipino	90,000	0.0129%
18	Chong Lilian	Filipino	50,000	0.0071%
19	Bautista, Emmanuel T. &/or Bernadita P.B.	Filipino	40,000	0.0057%
20	Uy, Arturo &/or Arnel Uy	Filipino	40,000	0.0057%

(3) Dividends

No cash dividends have been declared by the Company on its common stock for the last 10 years. The Corporation Code of the Philippines provides that dividends may only be declared out of unrestricted retained earnings. The directors will consider dividend payments after taking into account factors such as Company cash flow, future expansion plans and prevailing bank interest rates.

(4) Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

There were no sales of any unregistered securities of the Company within the past three years.

ANNEX “A”
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

Medco Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Medco Holdings, Inc**. (the "Company") is responsible for the presentation and fair presentation of the financial statements for the years ended December 31, 2011, 2010 and 2009 in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the Board of Directors and stockholders has expressed its opinion on the fairness of presentation upon completion of such examination.

Sai Chong Cheng
Chairman of the Board
TIN 911-812-692

Dionisio E. Carpio, Jr.
President
TIN 115-321-387

Pauline C. Tan
Treasurer
TIN 100-066-150

Signed this 12th day of April 2012

MAY 0 2 2012 CITY OF MAKATI

SUBSCRIBED AND SWORN to before me this _____day of_________at____________, affiant exhibiting to me their SSS /Passport Numbers as follow:

Sai Chong Cheng	752019881	July 9, 2008/United Kingdom of Great Britain and Northern Ireland
Dionisio E. Carpio, Jr.	33-08894245	Manila, Philippines
Pauline C. Tan	33-02936109	Manila, Philippines

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Page No. 83
Book No. XVII
Series of 2012.

ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2012
ROLL OF ATTORNEY NO. 40091
MCLE COMPLIANCE NO. III-0014282
IBP NO. 454555 LIFETIME MEMBER
PTR NO. 3173160, JAN. 2, 2012 MAKATI CITY

Punongbayan & Araullo

Report of Independent Auditors

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The Board of Directors and Stockholders
Medco Holdings, Inc. and Subsidiaries
31st Floor, Rufino Pacific Tower
6784 Ayala Avenue, Makati City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Medco Holdings, Inc. and subsidiaries (the Group), and the separate financial statements of Medco Holdings, Inc. (the Parent Company), both of which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion on the Parent Company Financial Statements

As discussed in Note 10 to the financial statements, the Parent Company's investment in Medco Asia Investment Corporation (the Subsidiary) has a carrying value of P68.3 million which is net of allowance for impairment of P131.7 million as of the same date. In 2011, the Subsidiary, recognized a 100% allowance for impairment on the carrying value of its investment in EIB amounting P148.8 million, which was eventually taken up in the 2011 consolidated financial statements of the Group as discussed in the *Emphasis of Matter* section of this report. The Subsidiary's recognition of the impairment loss resulted in a deficit of P360.8 million and P200.0 million as of December 31, 2011 and 2010, respectively, and capital deficiency of P59.0 million as of December 31, 2011 which is an indication of impairment of the Parent Company's investment in the Subsidiary. Hence, impairment loss on investment in subsidiary amounting to P68.3 million should have been recognized in the separate financial statements of the Parent Company. Had the impairment loss been recognized in the separate financial statements of the Parent Company for the year ended December 31, 2011, its net loss would have been P71.9 million.

Basis for Qualified Opinion on the Consolidated Financial Statements

In connection with the matter described above, we also believe that the carrying value of goodwill carried in the consolidated financial statements of the Group as part of Other Assets amounting to P5.0 million is no longer recoverable because of the current condition of the Parent Company on whose acquisition, the goodwill was recognized by the Group (see Note 11 to the financial statements). Accordingly, the goodwill should have been provided with 100% allowance for impairment as of December 31, 2011. Management believes, however, that the carrying value of goodwill is still fully recoverable. Had a 100% impairment been recognized on the Group's goodwill, net loss would have been P163.3 million in 2011.

Qualified Opinion

In our opinion, except for the effects on the 2011 consolidated financial statements of the Group and the separate financial statements of the Parent Company of the matters described in the *Bases for Qualified Opinion* section of this report, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 1 to the financial statements which describes the current status of operations of the Group and the recoverability of its investment in Export and Industry Bank, Inc. (EIB). As discussed therein, the Group incurred significant recurring losses from operations that has already resulted in a capital deficiency of P117.7 million for the Group and P1.1 million for the Parent Company as of December 31, 2011. Such recurring losses is mainly due to the impairment losses recognized on the Group's investment in EIB which at the beginning of 2011 represents a substantial portion of the Group's assets. Based on the public disclosures of EIB, all of its assets were sold to a local expanded commercial bank (the Bank) in consideration of the assumption by the Bank of all the liabilities of EIB, including its deposit liabilities, in the middle of 2010 but the consummation of which remains pending as of December 31, 2011 as the final approval by the regulators is yet to be obtained. Management, however, believes that the approval is very eminent; accordingly, recognized a 100% allowance for impairment on the P148.8 million carrying value of the investment in 2011 (about 83% of the investment has already been provided with allowance for impairment losses in prior years). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. As at December 31, 2011, management, in coordination with Citivest Asia Limited (CAL, the ultimate parent company), is considering a recapitalization of the Group as its initial step to address the material uncertainty. In the meantime, to ensure that the Company can continue to operate as a going concern entity, CAL has committed to continue providing financial support to the Company until such time its financial condition and performance improves and it becomes self-sustaining again. Accordingly, the accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this material uncertainty.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2011 required by the Bureau of Internal Revenue as disclosed in Note 19 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Christopher M. Ferareza
Partner

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TIN 184-595-975
PTR No. 3174792, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 1185-A (until Jan. 18, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-34-2011 (until Sept. 21, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

April 12, 2012

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MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	Consolidated 2011	Consolidated 2010	Parent Company 2011	Parent Company 2010
A S S E T S					
CASH AND CASH EQUIVALENTS	7	**P 27,995,818**	P 39,053,962	**P 23,448,442**	P 1,867,236
AVAILABLE-FOR-SALE FINANCIAL ASSETS - Net	8	**31,823,600**	31,792,321	**31,268,750**	31,268,750
RECEIVABLES - Net	9	**255,173**	235,454	**44,557**	69,858
DUE FROM RELATED PARTIES	13	**2,762,344**	686,569	**-**	49,733,878
INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE - Net	10	**-**	148,746,260	**68,285,821**	68,285,821
OTHER ASSETS	11	**9,099,662**	8,771,916	**766,142**	950,647
TOTAL ASSETS		**P 71,936,597**	P 229,286,482	**P 123,813,712**	P 152,176,190
LIABILITIES AND EQUITY					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12	**P 2,431,661**	P 2,627,704	**P 360,296**	P 578,121
DUE TO RELATED PARTIES	13	**184,795,072**	183,364,277	**124,103,052**	148,675,260
RETIREMENT BENEFIT OBLIGATION	14	**2,373,094**	2,485,850	**402,913**	403,309
Total Liabilities		**189,599,827**	188,477,831	**124,866,261**	149,656,690
EQUITY (CAPITAL DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	6	**(98,822,020)**	4,728,585	**(1,052,549)**	2,519,500
NON-CONTROLLING INTEREST		**(18,841,210)**	36,080,066	**-**	-
Total Equity (Capital Deficiency)		**(117,663,230)**	40,808,651	**(1,052,549)**	2,519,500
TOTAL LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		**P 71,936,597**	P 229,286,482	**P 123,813,712**	P 152,176,190

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

		Consolidated			Parent Company		
	Notes	**2011**	2010	2009	**2011**	2010	2009
REVENUES							
Professional fees	2	**P 3,441,177**	P 3,441,177	P 3,441,177	**P -**	P -	P -
Dividends	2	**1,517,235**	2,250,000	935,249	**1,500,000**	2,250,000	900,000
Interest	2	**837,462**	1,268,133	1,801,857	**29,692**	3,059	1,876
Foreign exchange gain		**8,360**	-	-	**8,360**	-	-
Rent		**-**	-	523,246	**-**	-	-
Others		**146,095**	819,097	2,239,949	**1,500**	766,015	-
		5,950,329	7,778,407	8,941,478	**1,539,552**	3,019,074	901,876
EXPENSES							
Impairment loss	10	**148,746,260**	218,135,140	-	**-**	131,710,108	-
Employee benefits	14	**7,086,828**	6,456,394	6,505,868	**3,061,307**	2,472,554	2,211,428
Representation		**2,460,751**	2,661,184	2,754,578	**491,399**	661,900	712,278
Professional and management fees		**2,358,617**	2,097,459	2,081,586	**762,600**	491,300	461,300
Occupancy	13	**1,531,384**	1,600,047	1,387,978	**312,000**	312,000	312,000
Taxes and licenses	19	**305,062**	348,629	547,944	**21,675**	276,735	290,227
Foreign exchange losses - net		**14,589**	804,766	382,691	**-**	3,040	1,380
Interest and bank charges		**-**	-	7,359	**-**	-	-
Others		**1,800,092**	1,720,061	1,719,538	**457,958**	420,079	427,332
		164,303,583	233,823,680	15,387,542	**5,106,939**	136,347,716	4,415,945
LOSS BEFORE TAX		**158,353,254**	226,045,273	6,446,064	**3,567,387**	133,328,642	3,514,069
TAX EXPENSE	15	**149,906**	238,880	398,522	**4,662**	15,932	375
NET LOSS		**158,503,160**	226,284,153	6,844,586	**3,572,049**	133,344,574	3,514,444
OTHER COMPREHENSIVE INCOME							
Fair value gain on available-for-sale financial asset	8	**(31,279)**	(48,884)	(292,512)	**-**	-	-
TOTAL COMPREHENSIVE LOSS		**P 158,471,881**	P 226,235,269	P 6,552,074	**P 3,572,049**	P 133,344,574	P 3,514,444
Attributable to:							
Shareholders of the Parent Company		**P 103,570,794**	P 146,632,372	P 5,663,850			
Non-controlling interest		**54,932,366**	79,651,781	1,180,736			
		P 158,503,160	P 226,284,153	P 6,844,586			
Loss Per Share	16	**P 0.226**	P 0.323	P 0.009	**P 0.005**	P 0.190	P 0.005

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

		Consolidated						
	Notes	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Deficit	Total Attributable to Shareholders of the Parent Company	Non-controlling Interest	Total Equity (Capital Deficiency)
Balance at January 1, 2011		P 700,000,000	P 25,498,912	(P 376,801)	(P 720,393,526)	P 4,728,585	P 36,080,066	P 40,808,651
Total comprehensive income (loss)								
Net loss for the year		-	-	-	(103,570,794)	(103,570,794)	(54,932,366)	(158,503,160)
Fair value gain on available-for-sale financial asset	8	-	-	20,189	-	20,189	11,090	31,279
Balance at December 31, 2011	6	**P 700,000,000**	**P 25,498,912**	**(P 356,612)**	**(P 823,964,320)**	**(P 98,822,020)**	**(P 18,841,210)**	**(P 117,663,230)**
Balance at January 1, 2010		P 700,000,000	P 25,498,912	(P 408,353)	(P 573,761,154)	P 151,329,405	P 115,714,515	P 267,043,920
Total comprehensive income (loss)								
Net loss for the year		-	-	-	(146,632,372)	(146,632,372)	(79,651,781)	(226,284,153)
Fair value gain on available-for-sale financial asset	8	-	-	31,552	-	31,552	17,332	48,884
Balance at December 31, 2010	6	P 700,000,000	P 25,498,912	(P 376,801)	(P 720,393,526)	P 4,728,585	P 36,080,066	P 40,808,651
Balance at January 1, 2009		P 700,000,000	P 25,498,912	(P 597,152)	(P 568,097,304)	P 156,804,456	P 116,791,538	P 273,595,994
Total comprehensive income (loss)								
Net loss for the year		-	-	-	(5,663,850)	(5,663,850)	(1,180,736)	(6,844,586)
Fair value gain on available-for-sale financial asset	8	-	-	188,799	-	188,799	103,713	292,512
Balance at December 31, 2009	6	P 700,000,000	P 25,498,912	(P 408,353)	(P 573,761,154)	P 151,329,405	P 115,714,515	P 267,043,920

	Note	Parent Company				
		Capital Stock	**Additional Paid-in Capital**	**Revaluation Reserves**	**Deficit**	**Total Equity (Capital Deficiency)**
Balance at January 1, 2011		P 700,000,000	P 25,498,912	P -	(P 722,979,412)	P 2,519,500
Net loss for the year		-	-	-	(3,572,049)	(3,572,049)
Balance at December 31, 2011	6	**P 700,000,000**	**P 25,498,912**	**P -**	**(P 726,551,461)**	**(P 1,052,549)**
Balance at January 1, 2010		P 700,000,000	P 25,498,912	P -	(P 589,634,838)	P 135,864,074
Net loss for the year		-	-	-	(133,344,574)	(133,344,574)
Balance at December 31, 2010	6	P 700,000,000	P 25,498,912	P -	(P 722,979,412)	P 2,519,500
Balance at January 1, 2009		P 700,000,000	P 25,498,912	P -	(P 586,120,394)	P 139,378,518
Net loss for the year		-	-	-	(3,514,444)	(3,514,444)
Balance at December 31, 2009	6	P 700,000,000	P 25,498,912	P -	(P 589,634,838)	P 135,864,074

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Note	Consolidated 2011	Consolidated 2010	Consolidated 2009	Parent Company 2011	Parent Company 2010	Parent Company 2009
CASH FLOWS FROM OPERATING ACTIVITIES							
Loss before tax		(P 158,353,254)	(P 226,045,273)	(P 6,446,064)	(P 3,567,387)	(P 133,328,642)	(P 3,514,069)
Adjustments for:							
Impairment loss		148,746,260	218,135,140	-	-	131,710,108	-
Interest income		(982,057)	(1,268,133)	(1,801,857)	(29,692)	(2,447)	(1,876)
Unrealized foreign exchange loss (gain)		(8,360)	804,766	382,691	(8,360)	3,040	1,380
Depreciation and amortization		-	16,604	16,604	-	-	-
Interest expense		-	-	7,359	-	-	-
Operating loss before working capital changes		(10,597,411)	(8,356,896)	(7,841,267)	(3,605,439)	(1,617,941)	(3,514,565)
Decrease (increase) in receivables		(2,095,494)	139,394	550,051	25,301	(6,782)	423,041
Decrease (increase) in other assets		(327,746)	(776,535)	(767,565)	184,505	(116,640)	(332,858)
Increase (decrease) in accounts payable and accrued expenses		(196,043)	(222,665)	(1,372,453)	(217,825)	81,235	225,544
Increase (decrease) in retirement benefit obligation		(112,756)	535,481	742,454	(396)	182,889	165,013
Cash used in operations		(13,329,450)	(8,681,221)	(8,688,780)	(3,613,854)	(1,477,239)	(3,033,825)
Cash paid for income taxes		(149,906)	(238,880)	(294,984)	(4,662)	(15,932)	(375)
Net Cash From Operating Activities		(13,479,356)	(8,920,101)	(8,983,764)	(3,618,516)	(1,493,171)	(3,034,200)
CASH FLOWS FROM INVESTING ACTIVITY							
Interest received		982,057	1,268,133	1,801,857	29,692	2,447	1,876
CASH FLOWS FROM FINANCING ACTIVITIES							
Net borrowings (repayments) from related parties		1,430,795	(2,281,632)	1,575,483	12,686,505	(1,388,864)	2,062,637
Interest paid		-	-	(7,359)	-	-	-
Collection of due from related parties		-	-	-	12,475,165	3,540,989	2,041,961
Net Cash From (Used in) Financing Activities		1,430,795	(2,281,632)	1,568,124	25,161,670	2,152,125	4,104,598
Effect of Exchange Rate Changes on Cash and Cash Equivalents		8,360	(804,766)	(382,691)	8,360	(3,040)	(1,380)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(11,058,144)	(10,738,366)	(5,996,474)	21,581,206	658,361	1,070,894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		39,053,962	49,792,328	55,788,802	1,867,236	1,208,875	137,981
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P 27,995,818	P 39,053,962	P 49,792,328	P 23,448,442	P 1,867,236	P 1,208,875

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General

Medco Holdings, Inc. (MHI or the parent company), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on April 11, 1995 as a holding company. Its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). Collectively, MHI and its subsidiaries are referred herein as the Group.

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

The Group holds a 10.31% interest in Export and Industry Bank, Inc. (EIB) while the parent company holds a 64.54% interest in Medco Asia Investment Corporation (MAIC) and a 2.45% interest in EIB. MAIC was registered with the SEC on April 7, 1995 to engage primarily in operating an investment house. MAIC is not engaged in any underwriting or any investment house related activities and its main source of revenues in 2011 and 2010 pertains only to professional or management services rendered to related parties.

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI) (MAIC, OHI and SHI, altogether are referred to herein as the subsidiaries). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations as of December 31, 2011.

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

1.2 Status of Operations

The Group incurred net losses of P158,503,160 in 2011, P226,284,153 in 2010 and P6,844,586 in 2009, while the parent company incurred net losses of P3,572,049 in 2011, P133,344,574 in 2010 and P3,514,444 in 2009, which are both mainly due to impairment losses recognized on their investment in EIB. The Group and the parent company reported a capital deficiency of P117,663,230 and P1,052,549, respectively, as of December 31, 2011 as a consequence of such recurring losses. At the start of 2011, the carrying amount of the Group's investment in EIB represents substantial portion of Group's consolidated assets. Based on EIB's public disclosures, all of its assets have been sold to a local expanded commercial bank in the middle of 2010 but the consummation of which is pending final approval by the regulators as of December 31, 2011. Management, however, believes that the approval is eminent; accordingly, the Group recognized full impairment loss on the remaining carrying amount of the investment in 2011 (see Note 10). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. As at December 31, 2011, the Company's management, in coordination with CAL, is considering a recapitalization of the Group as its initial step to address this material uncertainty. In the meantime, to ensure that the Group can continue to operate as a going concern entity, CAL has committed to continue providing financial support to the Group until such time its financial condition and performance improves and it becomes self-sustaining again.

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

1.3 Approval of Financial Statements

The financial statements of the Group and of the parent company for the year ended December 31, 2011 (including the comparatives for the years ended December 31, 2010 and 2009) were authorized for issue by the Board of Directors (BOD) on April 12, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense, except for the recognition of impairment losses on the parent company's investment in subsidiary in the parent company financial statements and recognition of impairment losses on goodwill in the consolidated financial statements. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2011 that are Relevant to the Group

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

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

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

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Group's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group Company's other comprehensive income only includes fair value changes on available-for-sale (AFS) financial assets, the Group has elected to continue presenting each item of other comprehensive income in the statement of changes in equity.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Group already provides adequate information in its financial statements in compliance with the disclosure requirements.

(b) Effective in 2011 that are not Relevant to the Group

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

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
PFRS 1 (Amendments)	:	First-Time Adoption of PFRS – Limited Exemption
2010 Annual Improvements		
PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 (Amendment)	:	Investments in Associate
PAS 31 (Amendment)	:	Interests in Joint Ventures
PAS 34 (Amendment)	:	Interim Financial Reporting
PFRS 1 (Amendment)	:	First Time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combination
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value of Award Credits

(c) Effective Subsequent to 2011 but not Adopted Early

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its financial statements.

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

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

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

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

(iii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

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

(v) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

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

(vi) Consolidation Standards

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

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

2.3 Basis of Consolidation

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

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

The parent company accounts for its investment in subsidiaries and non-controlling interest as follows:

(a) *Investments in Subsidiaries and Business Combination*

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

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

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

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

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

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

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment. As disclosed in Note 2.1(a), the Group did not recognize impairment losses on its goodwill.

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

(b) Transactions with Non-controlling Interests

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

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

Non-controlling interests in 2011 and 2010 represent the interests not held by the parent company in MAIC.

2.4 Financial Assets

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

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

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

(a) Loans and Receivables

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

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

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

(b) AFS Financial Assets

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

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

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

Impairment losses recognized on financial assets are presented under Impairment Loss in the statement of comprehensive income.

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

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

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

2.5 Financial Liabilities

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

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

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

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

2.6 Provisions and Contingencies

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

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

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

2.7 Equity (Capital Deficiency)

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

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

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

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

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

2.8 Related Party Transactions

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

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

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

2.9 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

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

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

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

2.10 Revenue and Expense Recognition

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

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

(a) *Professional fees* – Revenue from professional services provided to subsidiaries of EIB is recognized once the service has been rendered.

(b) *Dividends* – Revenue is recognized when the Group's right to receive the payment is established.

(c) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(d) *Rental income* – Revenue is recognized on a straight-line basis over the term of the lease.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

The Group's investments in subsidiaries and associate and goodwill are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.3). All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.14 Employee Benefits

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

(a) *Post-employment Benefits*

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

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

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

(b) *Defined Benefit Contribution Plans*

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

(c) *Termination Benefits*

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

2.15 Loss Per Share

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

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

2.16 Income Taxes

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

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

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

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

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

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

2.17 Events After the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector-performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets are not impaired as of December 31, 2011, 2010 and 2009. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Operating and Finance Leases

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

(c) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Receivables

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

Allowance for impairment amounted to P40.3 million as of December 31, 2011, 2010 and 2009. Based on the recent evaluation of information and circumstances affecting the Group's receivables as presented in Note 9, management concluded that no additional allowance was necessary in 2011, 2010 and 2009.

(b) *Fair Value of AFS Financial Assets*

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

The carrying values of the Group's AFS financial assets and the amounts of fair value changes recognized in 2011, 2010 and 2009 on those assets are disclosed in Note 8.

(c) *Recoverability of Deferred Tax Assets*

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

In 2011, 2010 and 2009, the Group did not recognize net deferred tax assets since management does not anticipate sufficient taxable profits yet for it to be fully utilized in the succeeding periods (see Note 15).

(d) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

As discussed more fully in Notes 1.2 and 10, the Group recognized a 100% impairment loss on the remaining carrying value of its investment in EIB. It has already recognized a substantial amount in prior years.

(e) Post-employment Defined Benefit

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

4. SEGMENT REPORTING

4.1 Business Segments

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

(a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.

(b) *Investment holding* – consists mainly of investment holding activities of the parent company, OHI and SHI.

4.2 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the years ended December 31, 2011 and 2010 follows:

	2011		
	Investment Banking	Investment Holding	Total
REVENUES			
Professional fees	P 3,441,177	P -	P 3,441,177
Investment income	969,600	1,529,692	2,499,292
Others	-	9,860	9,860
	4,410,777	1,539,552	5,950,329
EXPENSES			
Expenses excluding impairment loss	10,450,384	5,106,939	15,557,323
Impairment loss	148,746,260	-	148,746,260
	159,196,644	5,106,939	164,303,583
SEGMENT OPERATING LOSS	**P 154,785,867**	**P 3,567,387**	**P 158,353,254**
ASSETS AND LIABILITIES			
Segment assets (liabilities)	**(P 56,691,971)**	**P 123,813,712**	**P 67,121,741**
Segment liabilities	**64,733,566**	**124,866,261**	**189,599,827**

	2010		
	Investment Banking	Investment Holding	Total
REVENUES			
Professional fees	P 3,441,177	P -	P 3,441,177
Investment income	1,257,338	2,260,795	3,518,133
Others	53,082	766,015	819,097
	4,751,597	3,026,810	7,778,407
EXPENSES			
Expenses excluding impairment loss	11,050,932	4,637,608	15,688,540
Impairment loss	86,425,032	131,710,108	218,135,140
	97,475,964	136,347,716	233,823,680
SEGMENT OPERATING LOSS	P 92,724,367	P 133,320,906	P 226,045,273
ASSETS AND LIABILITIES			
Segment assets	P 72,295,436	P 152,176,190	P 224,471,626
Segment liabilities	38,821,141	149,656,690	188,477,831

Segment assets above do not include goodwill of P4,814,856 as of December 31, 2011 and 2010 which is the only reconciling item for the years presented on segment assets. There were no intersegment transactions in 2011 and 2010 that need to be eliminated and reconciled with amounts presented on the face of the financial statements.

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.1 Foreign Currency Risk

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

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

As of December 31, 2011, the short-term exposure on foreign exchange denominated financial assets, translated into Philippine pesos at the closing rate, follows:

	Consolidated		**Parent Company**	
	U.S. Dollar	**HK Dollar**	**U.S. Dollar**	**HK Dollar**
Financial assets	P 365,413	P -	P 53,672	P -
Financial liabilities	-	(67,964,480)	-	-
Short-term exposure	**P 365,413**	**(P 67,964,480)**	**P 53,672**	**P -**

As of December 31, 2010, the short-term exposure on foreign currency denominated financial assets, translated into Philippine pesos at the closing rate, follows:

	Consolidated		Parent Company	
	U.S. Dollar	HK Dollar	U.S. Dollar	HK Dollar
Financial assets	P 14,951,018	P -	P 53,331	P -
Financial liabilities	-	(1,269,780)	-	-
Short-term exposure	P 14,951,018	(P 1,269,780)	P 53,331	P -

The following table illustrates the sensitivity of profit before tax with respect to changes in Philippine peso against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	Consolidated		**Parent Company**	
	2011	2010	**2011**	2010
PHP - USD	**P 41,509**	P 2,477,441	**P 6,097**	P 8,837
PHP - HKD	**(8,077,848)**	(198,410)	**-**	-
	P 8,036,339	P 2,279,031	**P 6,097**	P 8,837

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

5.2 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At December 31, 2011 and 2010, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 0.76% and +/- 0.77% for savings deposits and short-term placements as of December 31, 2011 and +/- 0.13% and +/- 1.08% for savings deposits and short-term placements as of December 31, 2010. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Net loss before tax	**P 375,331**	P 253,923	**P 21,794**	P 2,334
Equity	**112,599**	203,138	**6,538**	1,867

5.3 Liquidity Risk

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

As at December 31, the Group's financial assets and liabilities with their corresponding contractual maturities are shown below.

	Consolidated					
	2011			2010		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	**P 27,995,818**	**P -**	**P 27,995,818**	P 39,053,962	P -	P 39,053,962
Available-for sale financial assets	**-**	**31,823,600**	**31,823,600**	-	31,792,321	31,792,321
Loans and receivables (at gross)	**29,203**	**40,538,970**	**40,568,173**	89,225	40,459,229	40,548,454
	P 28,025,021	**P 72,362,570**	**P 100,387,591**	P 39,143,187	P 72,251,550	P 111,394,737
Financial Liabilities:						
Due to related parties	**P 184,795,072**	**P -**	**P 184,795,072**	P 183,364,277	P -	P 183,364,277
Accounts payable and accrued expenses	**2,310,109**	**-**	**2,310,109**	2,612,383	-	2,612,383
	P 187,105,181	**P -**	**P 187,105,181**	P 185,976,660	P -	P 185,976,660

	Parent Company					
	2011			2010		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 23,448,442	P -	P 23,448,442	P 1,867,236	P -	P 1,867,236
Available-for sale financial assets	-	31,268,750	31,268,750	-	31,268,750	31,268,750
Loans and receivables (at gross)	21,821	40,335,736	40,357,557	-	40,382,858	40,382,858
	P 23,470,263	P 71,604,486	P 95,074,749	P 1,867,236	P 71,651,608	P 73,518,844
Financial Liabilities:						
Due to related parties	P 124,103,052	P -	P 124,103,052	P 148,675,260	P -	P 148,675,260
Accounts payable and accrued expenses	292,322	-	292,322	562,801	-	562,801
	P 124,395,374	P -	P 124,395,374	P 149,238,061	P -	P 149,238,061

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

5.4 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls.

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

		Consolidated		Parent Company	
	Notes	**2011**	2010	**2011**	2010
Cash	7	**P 27,995,818**	P 39,053,962	**P 23,448,442**	P 1,867,236
Receivables	9	**255,173**	235,454	**44,557**	69,858
Due from related parties	13	**2,762,344**	686,569	**-**	49,733,878
Other assets	11	**384,687**	384,687	**-**	-
		P 31,398,022	P 40,360,672	**P 23,492,999**	P 51,670,972

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. There are no significant past due financial assets.

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

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

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by selecting best investment options commensurate with the level of risk. With the current financial condition of the Group, the management is working closely with the BOD for a potential recapitalization of the Group which it will then be able to use in its future investing activities (see Note 1.2).

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

The Group's and parent company's total capital deficiency amounted to P117,663,230 and P1,052,549, respectively, as of December 31, 2011. The Group's and parent company's total equity amounted to P40,808,651 and P2,519,500, respectively, as of December 31, 2010.

As of December 31, 2011 and 2010, the Group is not subject to any externally imposed capital requirements.

6.2 Track Record of Registration of Securities

On November 18, 1975, the SEC approved the listing at the PSE of the parent company's shares totalling 700,000,000. As of December 31, 2011, there are 687 holders of the listed shares equivalent to 100% of the parent company's total outstanding shares. Such listed shares closed at P0.49 per share as of December 31, 2011.

The parent company has no other securities being offered for trading in any stock exchange.

7. CASH AND CASH EQUIVALENTS
7.

This account consists of:

		Consolidated		Parent Company	
	Note	**2011**	2010	**2011**	2010
Cash on hand		**P 8,000**	P 8,000	**P -**	P -
Cash in banks	13.4	**2,458,376**	17,575,475	**415,300**	1,867,236
Short-term placements		**25,529,442**	21,470,487	**23,033,142**	-
		P 27,995,818	P 39,053,962	**P 23,448,442**	P 1,867,236

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

Short-term placements are made for varying periods of between 15 to 90 days and earn annual effective interest ranging from 1.75% to 4.25% in 2011 and 1.50% to 6.00% in 2010.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Cost				
Quoted	**P 1,083,578**	P 1,083,578	**P -**	P -
Not quoted	**76,292,533**	76,292,533	**76,268,750**	76,268,750
	77,376,111	77,376,111	**76,268,750**	76,268,750
Allowance for impairment	**(45,000,000)**	(45,000,000)	**(45,000,000)**	(45,000,000)
	32,376,111	32,376,111	**31,268,750**	31,268,750
Unrealized fair value loss	**(552,511)**	(583,790)	**-**	-
	P 31,823,600	P 31,792,321	**P 31,268,750**	P 31,268,750

The investment in available-for-sale financial assets of the Group as of December 31, 2011 and 2010 pertains to the 18.18% investment in Manila Exposition Complex, Inc. (P31,268,750) and 10% investment in I-Mart Corporation (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

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

The movements in the unrealized fair value losses on AFS financial assets of the Group, presented as Revaluation Reserve in the statement of changes in equity, follow:

	2011	2010
Balance at beginning of year	**P 583,790**	P 632,674
Fair value gain during the year	**(31,279)**	(48,884)
Balance at end of year	**P 552,511**	P 583,790

9. RECEIVABLES

This account consists of the following:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Accounts receivable	**P 40,538,970**	P 40,459,229	**P 40,335,736**	P 40,382,858
Interest receivable	**29,203**	89,225	**21,821**	-
	40,568,173	40,548,454	**40,357,557**	40,382,858
Allowance for impairment	**(40,313,000)**	(40,313,000)	**(40,313,000)**	(40,313,000)
	P 255,173	P 235,454	**P 44,557**	P 69,858

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

All of the receivables have been reviewed for indications of impairment and based on management assessment, no additional allowance for impairment loss on receivables was required to be provided in 2011 and 2010.

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	Consolidated 2011	Consolidated 2010	Parent Company 2011	Parent Company 2010
Associate					
EIB	10.31%	**P 860,659,849**	P 860,659,849	-	-
	2.45%	-	-	**P 478,380,834**	P 478,380,834
Subsidiary					
MAIC	64.54%	**-**	-	**199,995,929**	199,995,929
		860,659,849	860,659,849	**678,376,763**	678,376,763
Allowance for impairment		**(860,659,849)**	(711,913,589)	**(610,090,942)**	(610,090,942)
		P -	P 148,746,260	**P 68,285,821**	P 68,285,821

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

EIB is considered an associate because the Group has significant influence over EIB; certain members of the Group's BOD are also members of the BOD of EIB.

No quoted market values were available for the investment in EIB since May 15, 2009 as EIB shares were suspended for trading. On July 30, 2010, the BOD of EIB approved the sale of all of EIB's assets to BDO Unibank, Inc. (BDO Unibank), in consideration of BDO's assumption of all of EIB's liabilities, including its deposit liabilities (see also Note 1.2). On April 13, 2011, EIB received the approval by the Philippine Deposit Insurance Corporation, subject to definitive agreements and certain closing conditions, which include the final approval by the Bangko Sentral ng Pilipinas. As a result of EIB's sale of assets and transfer of liabilities to BDO, EIB will cease to operate as a commercial bank.

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

The movements in the allowance for impairment are presented below.

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**P 711,913,589**	P 493,778,449	**P 610,090,942**	P 478,380,834
Impairment losses during the year	**148,746,260**	218,135,140	**-**	131,710,108
Balance at end of year	**P 860,659,849**	P 711,913,589	**P 610,090,942**	P 610,090,942

The following are the relevant financial information of EIB for 2011, 2010 and 2009 (in thousands):

	2011 (Unaudited)	2010 (Audited)	2009 (Audited)
Assets	**P 25,965,022**	P 30,310,127	P 30,647,537
Liabilities	**25,695,512**	28,904,688	28,461,519
Equity	**269,510**	1,405,439	2,186,018
Revenues	**494,088**	1,293,820	1,348,465
Net loss	**1,086,650**	813,427	793,767

11. OTHER ASSETS

This account consists of the following:

	Notes	Consolidated		Parent Company	
		2011	2010	**2011**	2010
Goodwill		**P 4,814,856**	P 4,814,856	**P -**	P -
Creditable withholding tax		**3,049,852**	2,536,091	**-**	-
Security deposits	13.1	**384,687**	384,687	**-**	-
Miscellaneous	19.1	**850,267**	1,036,282	**766,142**	950,647
		P 9,099,662	P 8,771,916	**P 766,142**	P 950,647

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of December 31, 2011 and 2010, no impairment loss was recognized by the Group.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Consolidated		Parent Company	
		2011	2010	**2011**	2010
Accounts payable		**P 1,541,750**	P 1,595,620	**P -**	P -
Rent payable	13.1	**133,299**	133,299	**-**	-
Withholding tax payable		**114,544**	68,424	**67,944**	23,660
Percentage tax payable		**6,977**	-	**-**	-
Income tax payable		**30**	15,320	**30**	15,320
VAT payable		-	308,121	**-**	308,121
Accrued and other payables		**635,061**	506,920	**292,322**	231,020
		P 2,431,661	P 2,627,704	**P 360,296**	P 578,121

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

13. RELATED PARTY TRANSACTIONS

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

13.1 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total annual rental charged to operations amounted to P1,531,384 in 2011, P1,342,586 in 2010, and P1,144,734 in 2009 for the Group, and P312,000 in each of the years presented for the parent company. These are included as part Occupancy in the statements of comprehensive income. Security deposits and advance rentals paid totaling P384,687 in December 31, 2011 and 2010 are included as part of Other Assets in the statements of financial position (see Note 11). Outstanding payable arising from these transactions amounted to P133,299 for the Group as of December 31, 2011 and 2010 (nil for parent company) and is presented as Rent payable under Accounts Payable and Accrued Expenses in the statements of financial position (see Note 12).

13.2 Due from Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Solid Payback Holdings, Inc.	**P 452,454**	P -	**P -**	P -
Bountiful Bancresources Holdings, Inc.	**429,504**	-	**-**	-
Lippo Securities, Inc. (LSI)	**333,458**	686,569	**-**	-
Lead Bancfund Corp.	**326,916**	-	**-**	-
Apex Bancrights Corp.	**325,866**	-	**-**	-
Goldwin Bancshares, Inc.	**308,192**	-	**-**	-
Cardinal Bancresources, Inc.	**307,151**	-	**-**	-
Due to other related parties	**278,803**	-	**-**	-
MAIC	**-**	-	**-**	49,733,878
	P 2,762,344	P 686,569	**P -**	P 49,733,878

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

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

The movements in this account follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**P 686,569**	P 691,998	**P49,733,989**	P 53,274,867
Additions	**2,428,886**	-	**-**	-
Collections	**(353,111)**	(5,429)	**(49,733,989)**	(3,540,989)
Balance at end of year	**P 2,762,344**	P 686,569	**P -**	P49,733,878

On December 16, 2008, MAIC received an instruction from LCR for the transfer to the parent company of MAIC's liability to LCR amounting to P74,425,175. As of December 31, 2011, MAIC has fully settled the outstanding balance of P49,733,878 due to the parent company in 2010, presented as Due from Related Parties in its 2010 parent company statement of financial position.

13.3 Due to Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
LCR	**P 178,292,546**	P 176,004,425	**P 117,600,526**	P 141,315,408
Bountiful Bancresources Holdings, Inc.	**3,552,525**	3,552,525	**3,552,526**	3,552,525
LSI	**2,950,000**	2,932,125	**2,950,000**	2,932,125
CPIL	**-**	875,202	**-**	875,202
	P 184,795,072	P 183,364,277	**P 124,103,052**	P 148,675,260

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

The movements in this account follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**P 183,364,277**	P 185,645,909	**P 148,675,260**	P 150,064,124
Additions	**25,674,645**	-	**17,875**	-
Collections	**(24,243,850)**	(2,281,632)	**(24,590,083)**	(1,388,864)
Balance at end of year	**P 184,795,072**	P 183,364,277	**P 124,103,052**	P 148,675,260

13.4 Cash in Bank

The Group has bank deposits with EIB amounting to P361,992 and P214,298 as of December 31, 2011 and 2010, respectively (nil for the parent company in both years (see Note 7).

13.5 Key Management and Personnel Compensation

The compensation and benefits provided to key management personnel amounted to P5,151,400 in 2011, P4,628,900 in 2010 and P4,283,167 in 2009 for the Group and P2,580,000 in 2011, P2,057,500 in 2010 and P1,821,400 in 2009 for the parent company. These are presented as part of Employee Benefits in the statements of comprehensive income.

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits are presented below.

	Consolidated						Parent Company					
	2011		2010		2009		**2011**		2010		2009	
Short-term employee benefits	**P**	**6,462,717**	P	5,920,913	P	5,763,413	**P**	**2,819,634**	P	2,289,665	P	2,046,415
Post-employment defined benefit		**624,111**		535,481		742,455		**241,673**		182,889		165,013
	P	**7,086,828**	P	6,456,394	P	6,505,868	**P**	**3,061,307**	P	2,472,554	P	2,211,428

14.2 Post-employment Defined Benefit

The Group maintains a non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The latest actuarial valuation report is as of December 31, 2011.

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

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

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

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

The movements in the fair value of plan assets are presented below.

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**P 854,508**	P 779,919	**P 248,590**	P 228,905
Contributions	**736,867**	-	**242,069**	-
Expected return on plan assets	**34,181**	31,197	**9,944**	9,156
Actuarial gains	**19,973**	43,392	**5,377**	10,529
Balance at end of year	**P 1,645,529**	P 854,508	**P 505,980**	P 248,590

As of December 31, 2011 and 2010, the plan assets consist of the following:

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

Actual returns on plan assets were P54,152 in 2011 and P74,589 in 2010 for the Group and P15,320 in 2011 and P19,685 in 2010 for the parent company.

The amounts of post-employment benefits expense recognized in profit or loss follow:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Current service cost	**P 353,495**	P 333,929	P 87,749	**P 100,436**	P 81,014	P 68,331
Interest cost	**250,330**	203,754	638,372	**104,638**	85,803	70,436
Expected return on plan assets	**(34,181)**	(31,197)	(29,114)	**(9,944)**	(9,156)	(8,493)
Net actuarial loss recognized during the plan year	**54,467**	28,995	45,448	**46,543**	25,228	34,739
	P 624,111	P 535,481	P 742,455	**P 241,673**	P 182,889	P 165,013

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

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

The Group and the parent company expects to pay P717,849 and P296,208, respectively, in contributions to retirement benefit plans in 2012.

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

	2011	2010	2009
Discount rates	**6.62%**	8.09%	9.52%
Expected rate of return on plan assets	**4.00%**	4.00%	4.00%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

15. TAXES

Tax expense reported in profit or loss for the years ended December 31, 2011, 2010 and 2009 follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Final tax at 7.5% and 20%	**P 147,460**	**P** 223,560	P 295,359	**P 4,632**	**P** 612	P 375
Minimum corporate income tax (MCIT) at 2%	**2,446**	15,320	103,163	**30**	15,320	-
	P 149,906	P 238,880	P 398,522	**P 4,662**	P 15,932	P 375

The reconciliation of tax on pretax loss for 2011, 2010 and 2009 computed at the applicable statutory tax rates to tax expense attributable to operations follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Tax on pretax loss at 30%	**(P 47,505,976)**	(P 67,813,582)	(P 1,933,819)	**(P 1,070,216)**	(P 39,998,593)	(P 1,054,221)
Adjustment for income subjected to lower tax rates	**(109,390)**	(153,819)	(222,129)	**(4,275)**	(306)	(187)
Tax effects of:						
Unrecognized temporary differences	**47,494,868**	68,091,251	1,474,145	**1,386,323**	40,484,998	1,113,620
Non-deductible expenses	**720,374**	774,710	799,750	**142,800**	189,513	211,163
MCIT	**30**	15,320	-	**30**	15,320	-
Non-taxable income	**(450,000)**	(675,000)	(280,575)	**(450,000)**	(675,000)	(270,000)
Tax expense	**P 149,906**	P 238,880	P 398,522	**P 4,662**	P 15,932	P 375

As discussed in Note 3.2(c), the Group did not recognize the net deferred tax assets on the following temporary differences:

	Consolidated			
	2011		2010	
	Amount	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**P 560,432,073**	**P 168,129,622**	P 405,555,862	P 121,666,759
Net of operating loss carryover (NOLCO)	**41,610,246**	**12,483,074**	31,731,660	9,519,498
Accrued retirement benefit obligation	**2,353,676**	**706,103**	2,485,851	745,755
Unrealized foreign currency losses (gains)	**(136,894)**	**(41,068)**	804,766	241,430
Excess MCIT	**120,929**	**120,929**	118,484	118,484
	P 604,380,031	**P 181,398,659**	P 440,696,623	P132,291,926

	Parent Company			
	2011		2010	
	Amount	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**P 172,023,108**	**P 51,606,932**	P 172,023,108	P 51,606,932
NOLCO	**11,227,093**	**3,368,128**	14,459,290	4,337,787
Accrued retirement	**402,913**	**120,874**	403,309	120,993
MCIT	**15,350**	**15,350**	15,320	15,320
Unrealized foreign currency losses (gains)	**(8,360)**	**(2,508)**	3,040	912
	P 183,660,104	**P 55,108,776**	P 186,904,067	P 56,081,944

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

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

As of December 31, 2011 and 2010, the Group's expired NOLCO incurred in 2008 and 2007 totaled P20,345,571 and P15,053,176, respectively. For the same years, the parent company's expired NOLCO amount to P7,865,069 and P7,730,333, respectively.

The parent company is subject to minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations. In 2011 and 2010, the parent company recognized MCIT on its gross income amounting to P30 and P15,320, respectively. There was no MCIT recorded in 2009.

In 2011 and 2010, the parent company opted to claim itemized deductions.

16. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended December 31, 2011, 2010 and 2009 are computed as follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Net loss	**P158,503,160**	P 226,284,153	P 6,844,586	**P 3,572,049**	P 133,344,574	P 3,514,444
Divided by the weighted average number of outstanding shares	**700,000,000**	700,000,000	700,000,000	**700,000,000**	700,000,000	700,000,000
Basic and diluted loss per share	**P 0.226**	P 0.323	P 0.009	**P 0.005**	P 0.190	P 0.005

The Group has no dilutive potential common shares as of December 31, 2011 and 2010.

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As of December 31, 2011, 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.

18. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

18.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of assets and liabilities presented in the statements of financial position are shown below.

		Consolidated			
		2011		2010	
	Notes	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans and receivables:					
Cash and cash equivalents	7	**P 27,995,818**	**P 27,995,818**	P 39,053,962	P 39,053,962
Receivables	9	**255,173**	**255,173**	235,454	235,454
Due from related parties	13	**2,762,344**	**2,762,344**	686,569	686,569
AFS financial assets	8	**31,823,600**	**31,823,600**	31,792,321	31,792,321
		P 62,836,935	**P 62,836,935**	P 71,768,306	P 71,768,306
Financial liabilities					
Accounts payable and other Liabilities (except tax related payables	12	**P 2,310,109**	**P 2,310,109**	P 2,612,383	P 2,612,383
Due to related parties	13	**184,795,072**	**184,795,072**	183,364,277	183,364,277
		P 187,105,181	**P 187,105,181**	P 185,976,660	P 185,976,660

		Parent Company			
		2011		2010	
	Notes	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Loans and receivables:					
Cash and cash equivalents	7	**P 23,448,442**	**P 23,448,442**	P 1,867,236	P 1,867,236
Receivables	9	**44,557**	**44,557**	69,858	69,858
Due from related parties	13	**-**	**-**	49,733,878	49,733,878
AFS financial assets	8	**31,268,750**	**31,268,750**	31,268,750	31,268,750
		P 54,761,749	**P 54,761,749**	P 82,939,722	P 82,939,722
Financial liabilities					
Accounts payable and other Liabilities (except tax related payables)	12	**P 292,322**	**P 360,296**	P 562,801	P 562,801
Due to related parties	13	**124,103,052**	**124,103,052**	148,675,260	148,675,260
		P 124,395,374	**P 124,395,374**	P 149,238,061	P 149,238,061

18.2 Fair Value Hierarchy

Financial assets and liabilities measured at fair value are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of the end of the reporting periods, financial assets carried at fair value pertain to AFS financial assets held by the Group representing investment in equity securities of publicly-listed companies in the Philippine Stock Exchange with quoted fair values of P531,067 and P499,788 as of December 31, 2011 and 2010, respectively, which are categorized as Level 1. AFS financial assets held by the parent company are carried at cost because the fair value of these investments cannot be reliably determined either by reference to similar financial instruments or through valuation technique, thus, are categorized under Level 3.

19. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information by the parent company is not a required disclosure under PFRS.

19.1 Requirements under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued by the parent company during the taxable year required under RR 15-2010 issued on November 25, 2010 are as follows:

(a) *Output VAT*

For the year ended December 31, 2011, the Parent Company has no output VAT as it did not enter into transactions during the year which are subject to output VAT.

(b) Input VAT

The movements of input VAT in 2011 are summarized below.

Balance at beginning of year	P	641,997
Current year's domestic purchases of services lodged under administrative expenses		124,145
Balance at end of year	P	766,142

The balance of Input VAT is presented as part of Miscellaneous Asset under its Other Assets account in the statement of financial position (see Note 11).

(c) Taxes on Importation

The parent company did not pay any taxes on importation as it did not import any asset or goods for use in business in 2011.

(d) Excise Tax

The parent company did not have excise tax in 2011 since it did not have any transactions which are subject to excise tax.

(e) Documentary Stamp Tax

The parent company did not have documentary stamp tax (DST) paid or accrued in 2011.

(f) Taxes and Licenses

The details of Taxes and Licenses account of the parent company in 2011 are shown below:

Licenses and permit fees	P	14,840
Real estate tax		4,175
Barangay clearance		1,300
Community tax		860
Registration		500
	P	21,675

(g) Withholding Taxes

The total withholding taxes of the parent company for the year ended December 31, 2011 are shown below.

Compensation and benefits	P	701,887
Expanded		87,450
Final withholding tax		11,250
	P	800,587

(h) Deficiency Tax Assessments and Tax Cases

As of December 31, 2011, the parent company does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

19.2 Requirements under RR 19-2011

On December 9, 2011, the BIR issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2011 statement of comprehensive income.

(a) Taxable Revenues

For the year ended December 31, 2011, the parent company has no taxable revenues.

(b) Deductible Costs of Sales and Services

The parent company has no deductible costs of sales and services for the year ended December 31, 2011.

(c) Taxable Non-operating and Other Income

The parent company's taxable non-operating and other income in 2011 which are subject to regular tax rate amounted to P1,500.

(d) *Itemized Deductions*

The details of itemized deductions under regular tax rate regime for the year ended December 31, 2011 are as follow:

Salaries and employee benefits	P	3,061,703
Outside services		762,600
Occupancy		312,000
Per diem		274,000
Transportation		57,461
Insurance		25,272
Publication		24,973
Taxes and licenses		21,675
Repairs and maintenance		17,613
Representation		15,396
Donation and contribution		10,000
Office supplies		6,654
Realized foreign exchange losses		3,040
Training and seminars		700
Miscellaneous		41,285
	P	4,634,372

ANNEX "B"
SEC FORM 17-Q
SEPTEMBER 30, 2012

MEDCO HOLDINGS, INC.

November 6, 2012

PHILIPPINE STOCK EXCHANGE, INC.
PSE Center, Exchange Road
Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**
Head- Disclosure Department

Re: **SEC Form 17-Q for September 30, 2012**

Gentlemen:

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

We trust that you will find the foregoing in order.

Very truly yours,

MEBathan

MA. LOURDES B. BATHAN
Corporate Information Officer

COVER SHEET

3	9	6	5	2							

SEC Registration Number

MEDCO HOLDINGS, INC. AND SUBSIDIARY

(Company's Full Name)

31st Floor, Rufino Pacific Tower,
6784 Ayala Avenue, Makati City

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

Dionisio E. Carpio, Jr.
(Contact Person)

811-0465
(Company Telephone Number)

09 *Month* **30** *Day*
2012

17-Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

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

1. For the quarterly period ended **30 September 2012**

2. SEC Identification Number **39652** 3. BIR Tax Identification No. **004-844-938**

4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter

5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code

7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code

8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**

9. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each class	Number of shares of common stock outstanding and amount debt outstanding
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.

2012- Third Quarter Financial Highlights

Total consolidated revenues for the third quarter of 2012 decreased by 72% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (59%), fees and other commission (29%), and interest income from short-term placement (12%). The decline in consolidated revenues was mainly due to the significant decrease in fees and other commission and dividend income. Interest income also contracted because of the substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

On the otherhand, total consolidated expenses for the third quarter of 2012 increased by 3.8% compared to last year's quarter. The increase was mainly due to the unrealized foreign exchange loss amounting to P0.60 million that resulted from the restatement of the dollar deposit placement.
The expenses for this quarter were composed of salaries and wages (49%), occupancy (11%), representation (10%), unrealised foreign exchange loss (6%), loss on sale of available for sale securities (5%), professional fees (4%), and other expenses (15%).

As to the balance sheet as at the end of this quarter, total assets decreased by 13.7% as compared to last year. As mentioned above, there was a substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirements. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2011. Likewise, the decrease in the due from related parties account resulted from the collection of advances from one if its affiliates. On the liabilities side, there were reclassification of accounts from the due to related parties to accounts payable and accrued expenses. The Due to Lippo China Resources account which was included in the due to related parties account was assigned to other third parties under the accounts payable and accrued expenses account.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2012 consisted of P18.7 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2011- Third Quarter Financial Highlights

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

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

On the other hand, consolidated expenses declined by 96% compared to last year's third quarter. The expenses were composed mainly of salaries & wages (43%), representation & entertainment (17%), professional fee (12%), Occupancy (11%), PSE fees (4%), and other expenses (13%).

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

As to the balance sheet as at the end of this quarter, there was no significant change in the total assets amount as compared to the end of last year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2010 and collection of advances made to related parties. On the liabilities side, accounts payable and accrued expenses likewise decreased by 28% due to the payment of liabilities accrued as of the same date.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2011 consisted of P31 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2010- Third Quarter Financial Highlights

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

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

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

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

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

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. In view of the booking of the aforementioned impairment loss provision by the Company's subsidiary that has resulted in the said subsidiary's inability to meet the prescribed capital requirement for an investment house, the subsidiary has filed a request with the Commission for the cancellation of its investment house license. Despite of this development, the Company does not anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2010 consisted of P40.7 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:

DIONISIO E. CARPIO, JR.
President

MA. LOURDES B. BATHAN
Principal Accounting Officer

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

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

* Losses
** Capital Deficiency in 2012

Note:
Y1= Current year
Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
September 30, 2012, 2011, and 2010

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

		2012		(Audited) 2011
ASSETS				
Cash and cash equivalents (Note 7)	P	18,746,195	P	27,995,818
Available-for-Sale Investments (Note 8)		31,293,500		31,823,600
Loans and receivables - net (Note 9)		40,250		255,173
Due from related parties (Note 13)		2,666,964		2,762,344
Equity Investment- net (Note 10)		-		-
Other Assets (Note 11)		9,350,518		9,099,662
TOTAL ASSETS	P	**62,097,427**	P	**71,936,597**
LIABILITIES AND EQUITY				
LIABILITIES				
Accounts Payable and Accrued Expenses (Note 12)	P	60,057,572	P	2,431,661
Due to related parties (Note 13)		126,927,218		184,795,072
Retirement benefit obligation		1,655,245		2,373,094
		188,640,035		189,599,827
EQUITY				
Equity attributable to equityholders of the parent				
Capital Stock - P1 par value				
Authorized, Issued & outstanding- 700,000,000 shares		700,000,000		700,000,000
Additional paid-in capital		25,498,912		25,498,912
Fair value losses in available-for-sale financial assets		251		(356,612)
Deficit		(831,254,243)		(823,964,320)
Total equity attributable to equityholders of the parent		(105,755,080)		(98,822,020)
Minority interest		(20,787,528)		(18,841,210)
		(126,542,608)		(117,663,230)
TOTAL LIABILITIES AND EQUITY	P	**62,097,427**	P	**71,936,597**

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

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

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

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

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

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

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

1. CORPORATE INFORMATION

1.1 General

Medco Holdings, Inc. (MHI or the parent company), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on April 11, 1995 as a holding company. Its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). Collectively, MHI and its subsidiaries are referred herein as the Group.

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

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

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

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

1.2 Status of Operations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense, except for the recognition of impairment losses on the parent company's investment in subsidiary in the parent company financial statements and recognition of impairment losses on goodwill in the consolidated financial statements. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2011 that are Relevant to the Group

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

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

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

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Group's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group Company's other comprehensive income only includes fair value changes on available-for-sale (AFS) financial assets, the Group has elected to continue presenting each item of other comprehensive income in the statement of changes in equity.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Group already provides adequate information in its financial statements in compliance with the disclosure requirements.

Effective in 2011 that are not Relevant to the Group

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

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

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

(c) Effective Subsequent to 2011 but not Adopted Early

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its financial statements.

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

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

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

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

(iii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

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

(v) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

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

(vi) Consolidation Standards

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

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

2.3 Basis of Consolidation

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

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

The parent company accounts for its investment in subsidiaries and non-controlling interest as follows:

(a) Investments in Subsidiaries and Business Combination

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

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

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

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

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

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

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment. As disclosed in Note 2.1(a), the Group did not recognize impairment losses on its goodwill.

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

(b) Transactions with Non-controlling Interests

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

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

Non-controlling interests in 2011 and 2010 represent the interests not held by the parent company in MAIC.

2.4 Financial Assets

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

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

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

(a) Loans and Receivables

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

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

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

(b) AFS Financial Assets

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

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

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

Impairment losses recognized on financial assets are presented under Impairment Loss in the statement of comprehensive income.

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

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

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

2.5 Financial Liabilities

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

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

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

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

2.6 Provisions and Contingencies

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

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

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

2.7 Equity (Capital Deficiency)

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

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

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

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

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

2.8 Related Party Transactions

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

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

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

2.9 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

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

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

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

2.10 Revenue and Expense Recognition

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

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

(a) *Professional fees* – Revenue from professional services provided to subsidiaries of EIB is recognized once the service has been rendered.

(b) *Dividends* – Revenue is recognized when the Group's right to receive the payment is established.

(c) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

The Group's investments in subsidiaries and associate and goodwill are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.3). All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.14 Employee Benefits

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

(a) Post-employment Benefits

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

regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

(b) *Defined Benefit Contribution Plans*

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

(c) *Termination Benefits*

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

2.15 Loss Per Share

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

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

2.16 Income Taxes

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

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

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

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

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

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

2.17 Events After the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector-performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets are not impaired as of September 30, 2012 and December 31, 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Operating and Finance Leases

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

(c) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Receivables

Adequate allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the counterparties and their current credit status, average age of accounts, collection experience and historical loss experience. Allowance for impairment amounted to P40.3 million as of September 30, 2012 and December 31, 2011. Based on the recent evaluation of information and circumstances affecting the Group's receivables as presented in Note 9, management concluded that no additional allowance was necessary as of September 30, 2012.

(b) Fair Value of AFS Financial Assets

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

(c) Recoverability of Deferred Tax Assets

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

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

(d) Impairment of Non-financial Assets

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(e) Post-employment Defined Benefit

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

4. SEGMENT REPORTING

4.1 Business Segments

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

(a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.

(b) *Investment holding* – consists mainly of investment holding activities of the parent company, OHI and SHI.

4.2 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the quarters ended September 30, 2012, 2011 and 2010 follows:

	2012		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P 367,059	P -	P 367,059
Investment income	45,976	112,645	158,621
Others	2,106	750,000	752,106
	415,141	862,645	1,277,786
Expenses	5,978,853	4,561,527	10,540,380
Operating Loss	P 5,563,712	P 3,698,882	P 9,262,594
Non-controlling interest in Net losses of subsidiary			(1,972,670)
Net Loss			P 7,289,924
Segment assets	P 9,377,310	P 47,905,261	P 57,282,571
Goodwill			4,814,856
Total assets			P 62,097,427
Segment liabilities	P 67,694,521	P 120,942,514	P 188,640,035

	2011		
	Investment Banking	Others	Total
Income:			
Commission and fees	P 2,580,882	P	P 2,580,882
Interest income	522,072	2,569	524,641
Other income	19,694	1,501,501	1,521,195
Gross revenues	3,122,648	1,504,070	4,626,718
Expenses	7,055,628	3,095,763	10,151,391
Loss before income tax	(3.932,980)	(1,591,693)	(5,524,673)
Income tax expense			
Operating loss	(P 3,932,980)	(P 1,591,693)	(5,524,673)
Non-controlling interest in net losses of subsidiary			1,394,477
Net loss			(P 4,130,196)
Segment assets	P 183,422,842	P 32,889,358	P 216,312,200
Goodwill			4,814,856
Total assets			P 221,127,056
Segment liabilities	P 45,783,511	P 140,059,567	P 185,843,078

	2010		
	Investment Banking	Others	Total
Income:			
Commission and fees	P2,580,882	-	P2,580,882
Interest income	763,971	1,535	765,506
Other income	52,315	780,158	832,473
Gross revenues	3,397,168	781,693	4,178,861
Expenses	226,218,124	2,902,207	229,120,331
Operating loss	(P 222,820,956)	(P 2,120,514)	(224,941,470)
Minority interest in net losses of subsidiary			(78,680,777)
Net loss			(P 146,260,693)
Segment assets	P 192,516,327	P 33,311,756	P 225,828,083
Goodwill			4,814,856
Total assets			P 230,642,939
Segment liabilities	P 46,175,137	P 142,365351	P 188,540,488

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.1 Foreign Currency Risk

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

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

5.2 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At June 30, 2012 and December 31, 2011, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.3 Liquidity Risk

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

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

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

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

5.4 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls.

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

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

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. There are no significant past due financial assets.

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

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

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by selecting best investment options commensurate with the level of risk. With the current financial condition of the Group, the management is working closely with the BOD for a potential recapitalization of the Group which it will then be able to use in its future investing activities (see Note 1.2).

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

7. CASH AND CASH EQUIVALENTS

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

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cost				
Quoted	P 967	P 1,083,578	P **-**	P -
Not quoted	76,292,533	76,292,533	76,268,750	76,268,750
	76,293,500	77,376,111	76,268,750	76,268,750
Allowance for impairment	(45,000,000)	(45,000,000)	(45,000,000)	(45,000,000)
	31,293,500	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	**-**	(552,511)	**-**	-
	P 31,293,500	P 31,823,600	P 31,268,750	P 31,268,750

The investment in available-for-sale financial assets of the Group as of December 31, 2011 and 2010 pertains to the 18.18% investment in Manila Exposition Complex, Inc. (P31,268,750) and 10% investment in I-Mart Corporation (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

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

9. RECEIVABLES

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Accounts receivable	P 40,353,250	P 40,538,970	P 40,353,250	P 40,335,736
Interest receivable	**-**	29,203	-	21,821
	40,353,250	40,568,173	40,353,250	40,357,557
Allowance for impairment	(40,313,000)	(40,31 3,000)	(40,313,000)	(40,313,000)
	P 40,250	P 255,173	P 40,250	P 44,557

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

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

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

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

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

EIB is considered an associate because the Group has significant influence over EIB; certain members of the Group's BOD are also members of the BOD of EIB.

No quoted market values were available for the investment in EIB since May 15, 2009 as EIB shares were suspended for trading. On July 30, 2010, the BOD of EIB approved the sale of all of EIB's assets to BDO Unibank, Inc. (BDO Unibank), in consideration of BDO's assumption of all of EIB's liabilities, including its deposit liabilities (see also Note 1.2). On April 13, 2011, EIB received the approval by the Philippine Deposit Insurance Corporation, subject to definitive agreements and certain closing conditions, which include the final approval by the Bangko Sentral ng Pilipinas. As a result of EIB's sale of assets and transfer of liabilities to BDO, EIB will cease to operate as a commercial bank.

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

11. OTHER ASSETS

This account consists of the following:

	Notes	Consolidated 2012	Consolidated 2011	Parent Company 2012	Parent Company 2011
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable withholding tax		3,104,911	3,049,852	-	-
Security deposits	13.1	384,687	384,687	-	-
Miscellaneous	19.1	1,046,064	850,267	858,046	766,142
		P 9,350,518	P 9,099,662	P 858,046	P 766,142

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of September 30, 2012 and December 31, 2011 no impairment loss was recognized by the Group.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

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

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

13. RELATED PARTY TRANSACTIONS

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

13.1 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rental charged to operations amounted to P1,148,538 for the third quarter ended September 30, 2012, 2011 and 2010 for the Group, and P234,000 in each of the quarters presented for the parent company. These are included as part Occupancy in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 on September 30, 2012 and December 31, 2011 are included as part of Other Assets in the statements of financial position (see Note 11). Outstanding payable arising from these transactions amounted to P133,299 for the Group as of September 30, 2012 and December 31, 2011 (nil for parent company) and is presented as Rent payable under Accounts Payable and Accrued Expenses in the statements of financial position (see Note 12).

13.2 Due from Related Parties

This account consists of the following:

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

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

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

13.3 Due to Related Parties

This account consists of the following:

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

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

13.4 Cash in Bank

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

14. EMPLOYEE BENEFITS

The Group maintains a non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The latest actuarial valuation report is as of December 31, 2011.

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

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

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

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

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

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

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

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

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

	2011	2010	2009
Discount rates	**6.62%**	8.09%	9.52%
Expected rate of return on plan assets	**4.00%**	4.00%	4.00%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

15. TAXES

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

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

16. BASIC AND DILUTED LOSS PER SHARE

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

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

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

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As of September 30, 2012, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

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

		NO OF DAYS OUTSTANDING				
	AMOUNT	**1 -30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**Over 120 days**
Various	P 40,250					P40,250

ANNEX "C"
SEC FORM 17-Q
JUNE 30, 2012

MEDCO HOLDINGS, INC.

August 10, 2012

PHILIPPINE STOCK EXCHANGE, INC.
PSE Center, Exchange Road
Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**
Head- Disclosure Department

Re: **SEC Form 17-Q for June 30, 2012**

Gentlemen:

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

We trust that you will find the foregoing in order.

Very truly yours,

MeBathan

MA. LOURDES B. BATHAN
Corporate Information Officer

COVER SHEET

3 9 6 5 2

SEC Registration Number

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

(Company's Full Name)

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

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

Dionisio E. Carpio, Jr.

(Contact Person)

811-0465

(Company Telephone Number)

0 6 | 3 0

Month *Day*

2012

1 7 - Q

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

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

---

1. For the quarterly period ended **30 June 2012**

2. SEC Identification Number **39652** 3. BIR Tax Identification No. **004-844-938**

4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter

5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code

7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code

8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**

9. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each class	Number of shares of common stock outstanding and amount debt outstanding
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.

2012- Second Quarter Financial Highlights

Total consolidated revenues for the second quarter of 2012 decreased by 65% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted mainly of dividend income (61%), fees and other commission (30%), interest income from short-term placement (9%). The decline in consolidated revenues was mainly due to the significant decrease in fees and other commission and dividend income. Interest income also contracted because of the substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

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

As to the balance sheet as at the end of this quarter, total assets decreased by 9.3% as compared to last year. As mentioned above, there was a substantial reduction in the deposit placements due to the payment of advances to its affiliate and withdrawals for its working capital requirements. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which had been accrued as at December 31, 2011. Likewise, the decrease in the due from related parties account resulted from the collection of advances from one if 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 June 30, 2012 consisted of P22.4 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2011- Second Quarter Financial Highlights

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

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

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

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

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

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

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

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

2010- Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2010 decreased by 16% compared to the prior year's second quarter figure. During the quarter under review, revenues consisted of fees and other commissions (58%), interest income from short-term placements (15%), and other income (27%).

The decline in consolidated revenues was mainly due to the 40% decrease in interest income from short-term placements. Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased from rates ranging from 2.50% to 6.00% in the second quarter of 2009, to rates ranging only from 1.25% to 4.00% in this year's second quarter.

On the other hand, consolidated expenses increased significantly by 2,989% compared to last year's second quarter. This was the result of the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. The expenses were composed mainly of impairment loss in investment (97%), salaries & wages (1.20%), representation & entertainment (0.6%), and other expenses (1.2%).

In the balance sheet as at the end of this quarter, total assets declined significantly by 48% as compared to as at the end of last year. The decline was mainly due to the provision for the impairment loss in the investment of the Company's subsidiary in Export and Industry Bank, Inc. amounting to P218 million. There was also a significant decrease of 78% in the loans and receivables account which was a result of the collection of accrued interest from deposit placements. On the liabilities side, accounts payable and accrued expenses decreased by 14% due to the payment of liabilities accrued on December 31, 2009.

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

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. In view of the booking of the aforementioned impairment loss provision by the Company's subsidiary that has resulted in the said subsidiary's inability to meet the prescribed capital requirement for an investment house, the subsidiary will file a request with the Commission for the cancellation of its investment house license. Despite of this development, the Company does not anticipate any liquidity problem within the next twelve (12) months. The Company has no default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are also no past due trade payables.

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2010 consisted of P45 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:

DIONISIO E. CARPIO, JR.
President

MA. LOURDES B. BATHAN
Principal Accounting Officer

Second Quarter Top Five (5) Performance Indicators
June 30, 2012, 2011 and 2010

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2012	2011	2010	2012	2011	2010
1. Revenue Growth	Revenue Y1-Y0 / Revenue Y0	-65.47%	19.93%	-16.71%	-80.95%	-5.68%	-38.05%
2. Net Income Growth*	Net Income Y1-Y0 / Net Income Y0	NA	-98.32%	NA%	NA	-98.77%	NA
3. Return on Equity**	Net Income / Average Stockholders' Equity	NA	-5.84%	-317.38%	NA	-222.56%	-208.54%
4.Current Ratio	Current Assets / Current Liabilities	0.12x	0.19x	0.24x	0.14x	9.52x	7.42x
5. Debt-to-Equity-Ratio**	Total Liabilities / Stockholders' Equity	NA	5.02x	4.19x	NA	0.96x	0.93x

* Losses
** Capital Deficiency in 2012

Note:
Y1= Current year
Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
June 30, 2012, 2011, and 2010

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

		2012		(Audited) 2011
ASSETS				
Cash and cash equivalents (Note 7)	P	21,967,974	P	27,995,818
Available-for-Sale Investments (Note 8)		31,293,500		31,823,600
Loans and receivables - net (Note 9)		57,679		255,173
Due from related parties (Note 13)		2,668,124		2,762,344
Equity Investment- net (Note 10)		-		-
Other Assets (Note 11)		9,223,838		9,099,662
TOTAL ASSETS	P	**65,211,115**	P	**71,936,597**
LIABILITIES AND EQUITY				
LIABILITIES				
Accounts Payable and Accrued Expenses (Note 12)	P	60,103,905	P	2,431,661
Due to related parties (Note 13)		126,927,218		184,795,072
Retirement benefit obligation		1,655,245		2,373,094
		188,686,368		189,599,827
EQUITY				
Equity attributable to equityholders of the parent				
Capital Stock - P1 par value				
Authorized, Issued & outstanding- 700,000,000 shares		700,000,000		700,000,000
Additional paid-in capital		25,498,912		25,498,912
Fair value losses in available-for-sale financial assets		251		(356,612)
Deficit		(828,807,867)		(823,964,320)
Total equity attributable to equityholders of the parent		(103,308,704)		(98,822,020)
Minority interest		(20,166,549)		(18,841,210)
		(123,475,253)		(117,663,230)
TOTAL LIABILITIES AND EQUITY	P	**65,211,115**	P	**71,936,597**

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

	APRIL TO JUNE		JANUARY TO JUNE	
	2012	2011	2012	2011
REVENUES	P 196,328	P 2,546,339	P 1,238,627	P 3,587,325
EXPENSES	3,430,360	3,195,325	7,433,865	6,965,740
LOSS BEFORE MINORITY SHARE IN NET INCOME	(3,234,032)	(648,986)	(6,195,238)	(3,378,415)
MINORITY SHARE IN NET LOSS	(571,065)	(429,670)	(1,351,691)	(965,786)
LOSS BEFORE FINAL TAX	(2,662,967)	(219,316)	(4,843,547)	(2,412,629)
LESS: PROVISION FOR FINAL TAX	-	-	-	-
NET LOSS	(2,662,967)	(219,316)	(4,843,547)	(2,412,629)
DEFICIT AT BEGINNING OF YEAR/QUARTER	(826,144,900)	(722,586,839)	(823,964,320)	(720,393,526)
DEFICIT AT END OF QUARTER	P **(828,807,867)**	**(722,806,155)**	**(828,807,867)**	**(722,806,155)**
LOSS PER SHARE (Note 16)	P (0.0038)	P (0.0003)	P (0.0069)	P (0.0034)

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

		2012		2011		2010
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 avialable-for-sale financial assets		251		(376,801)		(408,353)
Deficit						
Balance, beginning of year		(823,964,320)		(720,393,526)		(573,761,154)
Net loss		(4,843,547)		(2,412,629)		(143,578,562)
Balance, end of quarter		(828,807,867)		(722,806,155)		(717,339,716)
Total Equity Attributable to Equityholders of the Parent Company		(103,308,704)		2,315,956		7,750,843
Minority Interest		(20,166,549)		35,114,280		37,487,610
Total Equity	P	(123,475,253)	P	37,430,236	P	45,238,453

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2012, 2011 AND
FOR THE YEAR ENDED DECEMBER 31, 2011

		June 30 2012		(Audited) December 31 2011		June 30 2011
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss before tax and minority interest	P	(6,195,238)	P	(158,353,254)	P	(3,378,415)
Adjustments for:						
Impairment loss		-		148,746,260		-
Interest income		(120,017)		(982,057)		(364,021)
Interest expense		204		-		2,238
Depreciation and amortization		-		-		1,510
Unrealized forex exchange loss		487,340		(8,360)		129,609
Decrease(increase)in:						
Receivables		197,494		(2,095,494)		182,116
Other assets		(124,176)		(327,746)		(97,107)
Increase (decrease) in accounts payable, accrued expenses		56,980,747		(308,799)		(693,267)
Cash used in operating activities		51,226,354		(13,329,450)		(4,217,337)
Cash paid for income taxes		-		(149,906)		-
Net Cash Provided by (Used in) Operating Activities		51,226,354		(13,479,356)		(4,217,337)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		120,017		982,057		364,021
Decrease in available-for-sale securities		886,963		-		-
Net Cash Provided by Investing Activities		1,006,980		982,057		364,021
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid		(204)		-		(2,238)
Net borrowings (repayments) from related parties		(57,773,634)		1,430,795		14,321
Net Cash Provided by (Used in) Financing Activities		(57,773,838)		1,430,795		12,083
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION OF CASH AND CASH EQUIVALENTS		(487,340)		8,360		(129,609)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,027,844)		(11,058,144)		(3,970,842)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		27,995,818		39,053,962		39,053,962
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	P	21,967,974	P	27,995,818	P	35,083,120

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

1. CORPORATE INFORMATION

1.1 General

Medco Holdings, Inc. (MHI or the parent company), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on April 11, 1995 as a holding company. Its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). Collectively, MHI and its subsidiaries are referred herein as the Group.

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

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

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

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

1.2 Status of Operations

The Group incurred net losses of P4,843,547 in 2012, P2,412,629 in 2011 and P143,578,562 in 2010. The Group reported a capital deficiency of P123,475,253 and P117,663,230 respectively, as of June 30, 2012 and December 31, 2011 as a consequence of such recurring losses. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. As at June 30, 2012, the Company's management, in coordination with CAL, is considering a recapitalization of the Group as its initial step to address this material uncertainty. In the meantime, to ensure that the Group can continue to operate as a going concern entity, CAL has committed to continue providing financial support to the Group until such time its financial condition and performance improves and it becomes self-sustaining again.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense, except for the recognition of impairment losses on the parent company's investment in subsidiary in the parent company financial statements and recognition of impairment losses on goodwill in the consolidated financial statements. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2011 that are Relevant to the Group

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

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

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

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Group's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group Company's other comprehensive income only includes fair value changes on available-for-sale (AFS) financial assets, the Group has elected to continue presenting each item of other comprehensive income in the statement of changes in equity.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Group already provides adequate information in its financial statements in compliance with the disclosure requirements.

Effective in 2011 that are not Relevant to the Group

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

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

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

(c) Effective Subsequent to 2011 but not Adopted Early

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its financial statements.

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

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

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

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

(iii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

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

(v) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

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

(vi) Consolidation Standards

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement.*

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

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

2.3 Basis of Consolidation

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

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

The parent company accounts for its investment in subsidiaries and non-controlling interest as follows:

(a) *Investments in Subsidiaries and Business Combination*

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

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

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

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

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

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

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment. As disclosed in Note 2.1(a), the Group did not recognize impairment losses on its goodwill.

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

(b) Transactions with Non-controlling Interests

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

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

Non-controlling interests in 2011 and 2010 represent the interests not held by the parent company in MAIC.

2.4 Financial Assets

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

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

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

(a) Loans and Receivables

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

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

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

(b) AFS Financial Assets

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

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

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

Impairment losses recognized on financial assets are presented under Impairment Loss in the statement of comprehensive income.

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

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

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

2.5 Financial Liabilities

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

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

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

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

2.6 Provisions and Contingencies

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

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

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

2.7 Equity (Capital Deficiency)

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

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

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

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

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

2.8 Related Party Transactions

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

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

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

2.9 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

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

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

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

2.10 Revenue and Expense Recognition

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

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

(a) *Professional fees* – Revenue from professional services provided to subsidiaries of EIB is recognized once the service has been rendered.

(b) *Dividends* – Revenue is recognized when the Group's right to receive the payment is established.

(c) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

The Group's investments in subsidiaries and associate and goodwill are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.3). All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.14 Employee Benefits

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

(a) Post-employment Benefits

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

regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

(b) Defined Benefit Contribution Plans

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

(c) Termination Benefits

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

2.15 Loss Per Share

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

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

2.16 Income Taxes

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

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

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

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

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

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

2.17 Events After the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector-performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets are not impaired as of June 30, 2012 and December 31, 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Operating and Finance Leases

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

(c) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Allowance for Impairment of Receivables*

Adequate allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the counterparties and their current credit status, average age of accounts, collection experience and historical loss experience. Allowance for impairment amounted to P40.3 million as of June 30, 2012 and December 31, 2011. Based on the recent evaluation of information and circumstances affecting the Group's receivables as presented in Note 9, management concluded that no additional allowance was necessary as of March 31, 2012.

(b) *Fair Value of AFS Financial Assets*

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

(c) *Recoverability of Deferred Tax Assets*

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

In June 2012 and December 2011, , the Group did not recognize net deferred tax assets since management does not anticipate sufficient taxable profits yet for it to be fully utilized in the succeeding periods (see Note 15).

(d) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(e) *Post-employment Defined Benefit*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

4. SEGMENT REPORTING

4.1 Business Segments

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

(a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.

(b) *Investment holding* – consists mainly of investment holding activities of the parent company, OHI and SHI.

4.2 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the years ended June 30, 2012 and December 31, 2011 follows:

	2012		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P 367,059	P -	P 367,059
Investment income	28,604	91,413	120,017
Others	1,551	750,000	751,551
	397,214	841,413	1,238,627
Expenses	4.209,519	3,224,346	7,433,865
Operating Loss	P 3,812,305	P 2,382,933	P 6,195,238
Non-controlling interest in Net losses of subsidiary			(1,351,691)
Net Loss			P 4,843,547
Segment assets	P 11,141,760	P 49,254,499	P 60,396,259
Goodwill			4,814,856
Total assets			P 65,211,115
Segment liabilities	P 67,710,567	P 120,975,801	P 188,686,368

	2011		
	Investment Banking	Others	Total
Income:			
Commission and fees	P 1,720,588	P	P 1,720,588
Interest income	362,414	1,707	364,121
Other income	1,584	1,501,032	1,502,616
Gross revenues	2,084,586	1,502,739	3,587,325
Expenses	4,808,486	2,157,254	6,965,740
Loss before income tax	(2,723.900)	(654,515)	(3,378,415)
Income tax expense			
Operating loss	(P 2,723,900)	(P 654,515)	(3,378,415)
Non-controlling interest in net losses of subsidiary			965,786
Net loss			(P 2,412,629)
Segment assets	P 186,096,237	P 34,326,109	P 220,422,346
Goodwill			4,814,856
Total assets			P 225,237,202
Segment liabilities	P 46,277,845	P 141,529,121	P 187,806,966

	2010		
	Investment Banking	Others	Total
Income:			
Commission and fees	P1,720,588	-	P1,720,588
Interest income	438,179	922	439,101
Other income	51,427	780,158	831,585
Gross revenues	2,210,194	781,080	2,991,274
Expenses	222,841,134	1,955,608	224,796,742
Operating loss	(P 220,630,940)	(P 1,174,528)	(221,805,468)
Minority interest in net losses of subsidiary			(78,226,906)
Net loss			(P 143,578,562)
Segment assets	P 196,491,469	P 33,557,309	P 230,048,778
Goodwill			4,814,856
Total assets			P 234,863,634
Segment liabilities	P 46,960,261	P 142,664,920	P 189,625,181

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.1 Foreign Currency Risk

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

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

5.2 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At June 30, 2012 and December 31, 2011, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.3 Liquidity Risk

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

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

	Consolidated					
	2012			2011		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 21,967,974	P	P 21,967,974	P 27,995,818	P -	P 27,995,818
Available-for sale financial assets		31,293,500	31,293,500	-	31,823,600	31,823,600
Loans and receivables (at gross)	57,679	40,313,000	40,370,679	29,203	40,538,970	40,568,173
	P 22.025,653	P 71,606,500	P 93,632,153	P 28,025,021	P 72,362,570	P 100,387,591
Financial Liabilities:						
Due to related parties	P 126,927,218	P	P 126,927,218	P 184,795,072	P -	P 184,795,072
Accounts payable and accrued expenses	60,103,905		60,103,905	2,310,109	-	2,310,109
	P 187,031,123	P	P 187,031,123	P 187,105,181	P -	P 187,105,181

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

5.4 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls.

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

	Notes	Consolidated 2012	Consolidated 2011	Parent Company 2012	Parent Company 2011
Cash	7	P 21,967,974	P 27,995,818	**P** 17,573,453	P 23,448,442
Receivables	9	57,679	255,173	57,679	44,557
Due from related parties	13	2,668,124	2,762,344	-	-
Other assets	11	384,687	384,687	-	-
		P 25,078,464	P 31,398,022	P 17,631,132	P 23,492,999

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. There are no significant past due financial assets.

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

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

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by selecting best investment options commensurate with the level of risk. With the current financial condition of the Group, the management is working closely with the BOD for a potential recapitalization of the Group which it will then be able to use in its future investing activities (see Note 1.2).

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

7. CASH AND CASH EQUIVALENTS

		Consolidated		Parent Company	
	Note	**2012**	2011	**2012**	2011
Cash on hand		**P** 8,000	P 8,000	**P** **-**	P -
Cash in banks	13.4	5,298,963	2,458,376	431,799	415,300
Short-term placements		16,661,011	25,529,442	17,141,654	23,033,142
		P 21,967,974	P 27,995,818	**P** 17,573,453	P 23,448,442

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cost				
Quoted	P 967	P 1,083,578	P **-**	P -
Not quoted	76,292,533	76,292,533	76,268,750	76,268,750
	76,293,500	77,376,111	76,268,750	76,268,750
Allowance for impairment	(45,000,000)	(45,000,000)	(45,000,000)	(45,000,000)
	31,293,500	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	**-**	(552,511)	**-**	-
	P 31,293,500	P 31,823,600	P 31,268,750	P 31,268,750

The investment in available-for-sale financial assets of the Group as of December 31, 2011 and 2010 pertains to the 18.18% investment in Manila Exposition Complex, Inc. (P31,268,750) and 10% investment in I-Mart Corporation (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

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

9. RECEIVABLES

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Accounts receivable	P 40,370,679	P 40,538,970	P 40,370,679	P 40,335,736
Interest receivable	**-**	29,203	-	21,821
	40,370,679	40,568,173	40,370,679	40,357,557
Allowance for impairment	(40,313,000)	(40,31 3,000)	(40,313,000)	(40,313,000)
	P 57,679	P 255,173	P 57,679	P 44,557

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

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

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

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

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

EIB is considered an associate because the Group has significant influence over EIB; certain members of the Group's BOD are also members of the BOD of EIB.

No quoted market values were available for the investment in EIB since May 15, 2009 as EIB shares were suspended for trading. On July 30, 2010, the BOD of EIB approved the sale of all of EIB's assets to BDO Unibank, Inc. (BDO Unibank), in consideration of BDO's assumption of all of EIB's liabilities, including its deposit liabilities (see also Note 1.2). On April 13, 2011, EIB received the approval by the Philippine Deposit Insurance Corporation, subject to definitive agreements and certain closing conditions, which include the final approval by the Bangko Sentral ng Pilipinas. As a result of EIB's sale of assets and transfer of liabilities to BDO, EIB will cease to operate as a commercial bank.

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

11. OTHER ASSETS

This account consists of the following:

		Consolidated		Parent Company	
	Notes	2012	2011	2012	2011
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable withholding tax		3,104,911	3,049,852	-	-
Security deposits	13.1	384,687	384,687	-	-
Miscellaneous	19.1	919,384	850,267	835,259	766,142
		P 9,223,838	P 9,099,662	P 835,259	P 766,142

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of June 30, 2012 and December 31, 2011 no impairment loss was recognized by the Group.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

		Consolidated		Parent Company	
	Note	2012	2011	2012	2011
Accounts payable		P -	P 1,541,750	**P -**	P -
Rent payable	13.1	133,299	133,299	-	-
Withholding tax payable		153,180	114,544	85,281	67,944
Percentage tax payable		-	6,977	-	-
Income tax payable			30	-	30
Other payable		59,769,400	-	59,769,400	-
Accrued and other payables		48,026	635,061	136,993	292,322
		P 60,103,905	P 2,431,661	P 59,991,674	P 360,296

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

13. RELATED PARTY TRANSACTIONS

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

13.1 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rental charged to operations amounted to P765,692 for the second quarter ended June 30, 2012, 2011 and 2010 for the Group, and P156,000 in each of the quarters presented for the parent company. These are included as part Occupancy in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 on June 30, 2012 and December 31, 2011 are included as part of Other Assets in the statements of financial position (see Note 11). Outstanding payable arising from these transactions amounted to P133,299 for the Group as of June 30, 2012 and December 31, 2011 (nil for parent company) and is presented as Rent payable under Accounts Payable and Accrued Expenses in the statements of financial position (see Note 12).

13.2 Due from Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Solid Payback Holdings, Inc.	P 475,106	P 452,454	P -	P -
Bountiful Bancresources Holdings, Inc.	452,156	429,504	-	-
Lippo Securities, Inc. (LSI)		333,458	-	-
Lead Bancfund Corp.	349,569	326,916	-	-
Apex Bancrights Corp.	348,518	325,866	-	-
Goldwin Bancshares, Inc.	330,844	308,192	-	-
Cardinal Bancresources, Inc.	329,804	307,151	-	-
Due to other related parties	382,126	278,803	-	-
MAIC	-	-	**-**	49,733,878
	P 2,668,123	P 2,762,344	**P -**	P 49,733,878

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

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

13.3 Due to Related Parties

This account consists of the following:

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

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

13.4 Cash in Bank

The Group has bank deposits with EIB amounting to P 225,444 and P361,992 as of June 30, 2012 and December 31, 2011, respectively (nil for the parent company in both years (see Note 7).

14. EMPLOYEE BENEFITS

The Group maintains a non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The latest actuarial valuation report is as of December 31, 2011.

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

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

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

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

As of June 30, 2012 and December 31, 2011, the plan assets consist of the following:

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

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

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

The Group and the parent company expects to pay P717,849 and P296,208, respectively, in contributions to retirement benefit plans in 2012.

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

	2011	2010	2009
Discount rates	**6.62%**	8.09%	9.52%
Expected rate of return on plan assets	**4.00%**	4.00%	4.00%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

15. TAXES

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

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

16. BASIC AND DILUTED LOSS PER SHARE

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

		2012	2011	2010
a.	Net loss	₱ 4,843,547	₱ 2,412,629	₱143,578,562
b.	Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c.	Basic EPS (a/b)	(₱0.0069)	(₱0.0034)	(₱0.2051)

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

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As of June 30, 2012, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

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

		NO OF DAYS OUTSTANDING				
	AMOUNT	**1 -30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**Over 120 days**
Various	P 57,679				P57,679	

ANNEX "D"
SEC FORM 17-Q
MARCH 31, 2012

MEDCO HOLDINGS, INC.

May 8, 2012

PHILIPPINE STOCK EXCHANGE, INC.
PSE Center, Exchange Road
Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**
Head- Disclosure Department

Re: **SEC Form 17-Q for March 31, 2012**

Gentlemen:

In compliance with the Philippine Stock Exchange ("PSE") Disclosure Rules, please find attached the SEC Form 17-Q for the period ended March 31, 2012.

We trust that you will find the foregoing in order.

Very truly yours,

MeBathan

MA. LOURDES B. BATHAN
Corporate Information Officer

COVER SHEET

3	9	6	5	2							

SEC Registration Number

MEDCO HOLDINGS, INC. AND SUBSIDIARY

(Company's Full Name)

31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City

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

Dionisio E. Carpio, Jr.
(Contact Person)

811-0465
(Company Telephone Number)

03 *Month* **31** *Day*
2012

17-Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

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

1. For the quarterly period ended **31 March 2012**

2. SEC Identification Number **39652** 3. BIR Tax Identification No. **004-844-938**

4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter

5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code

7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code

8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**

9. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each class	Number of shares of common stock outstanding and amount debt outstanding
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.

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 if 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.

2011- First Quarter Financial Highlights

Consolidated revenues for the first quarter of 2011 decreased by approximately 10% compared to the previous year's first quarter figure. Consolidated revenues for this quarter consisted mainly of fees and other commissions (83%) and interest income from short-term placements (17%).

Like the previous year's first quarter, the decline in the consolidated revenues was due to the reduction of the interest income from short-term placements. Interest income contracted because of the decrease in the deposit placements of the Company's subsidiary due to the payment of advances to affiliates and withdrawals for its working capital requirement.

Consolidated expenses also declined by 3% compared to last year's first quarter. The expenses were composed mainly of salaries & wages (40%), representation & entertainment (15%), Occupancy (11%), professional fee (10%), PSE fees (7%), and other expenses (17%). 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, 2010. On the liabilities side, accounts payable and accrued expenses decreased by 4% due to the payment of liabilities accrued on December 31, 2010.

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, 2011 consisted of P36 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2010- First Quarter Financial Highlights

Consolidated revenues for the first quarter of 2010 significantly decreased by 42% compared to the prior year's first quarter figure. During the quarter under review, revenues consisted of fees and other commissions (75%), interest income from short-term placements (21%), and other income (4%).

The decline in consolidated revenues was mainly due to the 36% decrease in interest income from short-term placements and the 86% reduction in the other income account.

Interest income contracted because of the substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement. Furthermore, interest rates for short-term placements also decreased from rates ranging from 2.50% to 6.00% in the first quarter of 2009, to rates ranging only from 1.25% to 4.00% in this year's first quarter.

On the other hand, the decline in the other income account during the quarter under review was due to the unrealized foreign exchange loss incurred by the Company amounting to P0.415 million. The foreign exchange rate at the end of this quarter went down to P45.220 to a US Dollar compared to the P46.356 rate as of December 31, 2009. In contrast, an unrealized foreign exchange gain of P0.372 million was recorded in this account in the first quarter of 2009.

There was a slight increase of 8% in consolidated expenses compared to last year's first quarter. The expenses were composed mainly of salaries & wages (34%), representation & entertainment (16%), professional fee (11%), unrealized foreign exchange loss (11%) and other expenses (28%).

There was no significant movement in the expense components.

As to balance sheet as at the end of this quarter , there was no significant movement 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 the end of December 31, 2009. On the liabilities side, accounts payable and accrued expenses decreased by 7% due to the payment of liabilities accrued on December 31, 2009.

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

The Company is not aware of any trends, events or uncertainties that would materially affect its liquidity and its operations as a whole. 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, 2010 consisted of P46 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:

DIONISIO E. CARPIO, JR.
President

MA. LOURDES B. BATHAN
Principal Accounting Officer

First Quarter Top Five (5) Performance Indicators
March 31, 2012, 2011 and 2010

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2012	2011	2010	2012	2011	2010
1. Revenue Growth	Revenue Y1-Y0 / Revenue Y0	0.126%	-9.97%	-42.25%	-71.98%	-10.00%	-42.26%
2. Net Income Growth*	Net Income Y1-Y0 / Net Income Y0	-0.58%	2.10%	49.86%	45.61%	-7.51%	281.86%
3. Return on Equity**	Net Income / Average Stockholders' Equity	5.30%	-5.76%	-0.80%	3.63%	-0.51%	-0.50%
4.Current Ratio	Current Assets / Current Liabilities	0.14x	0.20x	0.25x	0.13x	79.86x	7.55x
5. Debt-to-Equity-Ratio**	Total Liabilities / Stockholders' Equity	-1.56x	4.94x	0.72x	-1.19x	0.95x	0.31x

* Losses
** Capital Deficiency in 2012

Note:
Y1= Current year
Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
March 31, 2012, 2011, and 2010

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2012 AND DECEMBER 31, 2011

		2012		(Audited) 2011
ASSETS				
Cash and cash equivalents (Note 7)	P	26,125,468	P	27,995,818
Available-for-Sale Investments (Note 8)		31,293,500		31,823,600
Loans and receivables - net (Note 9)		8,208		255,173
Due from related parties (Note 13)		2,565,089		2,762,344
Equity Investment- net (Note 10)		-		-
Other Assets (Note 11)		9,190,254		9,099,662
TOTAL ASSETS	P	**69,182,519**	P	**71,936,597**
LIABILITIES AND EQUITY				
LIABILITIES				
Accounts Payable and Accrued Expenses (Note 12)	P	60,223,426	P	2,431,661
Due to related parties (Note 13)		126,827,220		184,795,072
Retirement benefit obligation		2,373,094		2,373,094
		189,423,740		189,599,827
EQUITY				
Equity attributable to equityholders of the parent				
Capital Stock - P1 par value				
Authorized, Issued & outstanding- 700,000,000 shares		700,000,000		700,000,000
Additional paid-in capital		25,498,912		25,498,912
Fair value losses in available-for-sale financial assets		251		(356,612)
Deficit		(826,144,900)		(823,964,320)
Total equity attributable to equityholders of the parent		(100,645,737)		(98,822,020)
Minority interest		(19,595,484)		(18,841,210)
		(120,241,221)		(117,663,230)
TOTAL LIABILITIES AND EQUITY	P	**69,182,519**	P	**71,936,597**

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
FOR THE THREE MONTHS ENDED MARCH 31, 2012, 2011, and 2010

		2012		2011		2010
REVENUES	P	1,042,299	P	1,040,986	P	1,156,296
EXPENSES		4,003,505		3,770,415		3,884,124
LOSS BEFORE MINORITY SHARE IN NET INCOME		(2,961,206)		(2,729,429)		(2,727,828)
LESS: MINORITY SHARE IN NET LOSS		(780,626)		(536,116)		(579,651)
LOSS BEFORE FINAL TAX		(2,180,580)		(2,193,313)		(2,148,177)
LESS: PROVISION FOR FINAL TAX		-		-		-
NET LOSS		(2,180,580)		(2,193,313)		(2,148,177)
DEFICIT AT BEGINNING OF YEAR		(823,964,320)		(720,393,526)		(573,761,154)
DEFICIT AT END OF THE QUARTER		(826,144,900)		(722,586,839)		(575,909,331)
LOSS PER SHARE (Note 16)	P	(0.003)	P	(0.003)	P	(0.003)

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2012, 2011, and 2010

		2012		2011		2010
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 avialable-for-sale financial assets		251		(376,801)		(408,353)
Deficit						
Balance, beginning of year		(823,964,320)		(720,393,526)		(573,761,154)
Net loss		(2,180,580)		(2,193,313)		(2,148,177)
Balance, end of quarter		(826,144,900)		(722,586,839)		(575,909,331)
Total Equity Attributable to Equityholders of the Parent Company		(100,645,737)		2,535,272		149,181,228
Minority Interest		(19,595,484)		35,543,950		115,134,864
Total Equity	P	(120,241,221)	P	38,079,222	P	264,316,092

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2012, 2011 AND
FOR THE YEAR ENDED DECEMBER 31, 2011

		March 31 2012		(Audited) December 31 2011		March 31 2011
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss before tax and minority interest	P	(2,961,206)	P	(158,353,254)	P	(2,729,429)
Adjustments for:						
Impairment loss		-		148,746,260		-
Interest income		(15,662)		(982,057)		(179,824)
Interest expense		100		-		1,011
Depreciation and amortization		-		-		1,510
Unrealized forex exchange loss		3,776		(8,360)		148,101
Decrease(increase)in:						
Receivables		246,965		(2,095,494)		163,840
Other assets		(90,592)		(327,746)		(459,496)
Increase (decrease) in accounts payable, accrued expenses		57,818,117		(308,799)		(196,102)
Cash used in operating activities		55,001,498		(13,329,450)		(3,250,389)
Cash paid for income taxes		-		(149,906)		-
Net Cash Used in Operating Activities		55,001,498		(13,479,356)		(3,250,389)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		15,662		982,057		179,824
Decrease in available-for-sale securities		886,963		-		-
Net Cash Provided by Investing Activities		902,625		982,057		179,824
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid		(100)		-		(1,011)
Net borrowings (repayments) from related parties		(57,770,597)		1,430,795		322,139
Net Cash Provided by (Used in) Financing Activities		(57,770,697)		1,430,795		321,128
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION OF CASH AND CASH EQUIVALENTS		(3,776)		8,360		(148,101)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,870,350)		(11,058,144)		(2,897,538)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		27,995,818		39,053,962		-
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	P	26,125,468	P	27,995,818	P	(2,897,538)

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General

Medco Holdings, Inc. (MHI or the parent company), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on April 11, 1995 as a holding company. Its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). Collectively, MHI and its subsidiaries are referred herein as the Group.

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

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

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI) (MAIC, OHI and SHI, altogether are referred to herein as the subsidiaries). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations as of March 31, 2012.

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

1.2 Status of Operations

The Group incurred net losses of P2,180,580, P2,193,313 and P2,148,177 in the first quarter of 2012, 2011 and 2010, respectively.. The Group reported a capital deficiency of P120,241,221 and P117,663,230 respectively, as of March 31, 2012 and December 31, 2011 as a consequence of such recurring losses. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. As at March 31, 2012, the Company's management, in coordination with CAL, is considering a recapitalization of the Group as its initial step to address this material uncertainty. In the meantime, to ensure that the Group can continue to operate as a going concern entity, CAL has committed to continue providing financial support to the Group until such time its financial condition and performance improves and it becomes self-sustaining again.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense, except for the recognition of impairment losses on the parent company's investment in subsidiary in the parent company financial statements and recognition of impairment losses on goodwill in the consolidated financial statements. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2011 that are Relevant to the Group

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

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

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

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Group's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group Company's other comprehensive income only includes fair value changes on available-for-sale (AFS) financial assets, the Group has elected to continue presenting each item of other comprehensive income in the statement of changes in equity.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Group already provides adequate information in its financial statements in compliance with the disclosure requirements.

Effective in 2011 that are not Relevant to the Group

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

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
PFRS 1 (Amendments)	:	First-Time Adoption of PFRS – Limited Exemption
2010 Annual Improvements		
PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 (Amendment)	:	Investments in Associate
PAS 31 (Amendment)	:	Interests in Joint Ventures
PAS 34 (Amendment)	:	Interim Financial Reporting
PFRS 1 (Amendment)	:	First Time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combination
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value of Award Credits

(c) Effective Subsequent to 2011 but not Adopted Early

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its financial statements.

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

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

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

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

(iii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

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

(v) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

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

(vi) Consolidation Standards

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement.*

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

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

2.3 Basis of Consolidation

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

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

The parent company accounts for its investment in subsidiaries and non-controlling interest as follows:

(a) Investments in Subsidiaries and Business Combination

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

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

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

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

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

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

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment. As disclosed in Note 2.1(a), the Group did not recognize impairment losses on its goodwill.

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

(b) Transactions with Non-controlling Interests

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

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

Non-controlling interests in 2012 and 2011 represent the interests not held by the parent company in MAIC.

2.4 Financial Assets

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

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

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

(a) Loans and Receivables

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

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

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

(b) AFS Financial Assets

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

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

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

Impairment losses recognized on financial assets are presented under Impairment Loss in the statement of comprehensive income.

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

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

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

2.5 Financial Liabilities

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

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

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

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

2.6 Provisions and Contingencies

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

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

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

2.7 Equity (Capital Deficiency)

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

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

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

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

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

2.8 Related Party Transactions

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

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

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

2.9 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

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

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

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

2.10 Revenue and Expense Recognition

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

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

(a) *Professional fees* – Revenue from professional services provided to subsidiaries of EIB is recognized once the service has been rendered.

(b) *Dividends* – Revenue is recognized when the Group's right to receive the payment is established.

(c) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

The Group's investments in subsidiaries and associate and goodwill are subject to impairment testing. Goodwill, which has indefinite useful life, are tested for impairment at least annually (see also Note 2.3). All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.14 Employee Benefits

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

(a) Post-employment Benefits

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

regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

(b) Defined Benefit Contribution Plans

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

(c) Termination Benefits

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

2.15 Loss Per Share

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

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

2.16 Income Taxes

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

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

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

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

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

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

2.17 Events After the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector-performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets are not impaired as of March 31, 2012 and December 31, 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(b) Operating and Finance Leases

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

(c) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Receivables

Adequate allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the counterparties and their current credit status, average age of accounts, collection experience and historical loss experience. Allowance for impairment amounted to P40.3 million as of March 31, 2012 and December 31, 2011. Based on the recent evaluation of information and circumstances affecting the Group's receivables as presented in Note 9, management concluded that no additional allowance was necessary as of March 31, 2012.

(b) Fair Value of AFS Financial Assets

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

(c) *Recoverability of Deferred Tax Assets*

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

In March 2012 and December 2011, , the Group did not recognize net deferred tax assets since management does not anticipate sufficient taxable profits yet for it to be fully utilized in the succeeding periods (see Note 15).

(d) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(e) *Post-employment Defined Benefit*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

4. SEGMENT REPORTING

4.1 Business Segments

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

(a) *Investment banking* – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.

(b) *Investment holding* – consists mainly of investment holding activities of the parent company, OHI and SHI.

4.2 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the years ended March 31, 2012, 2011 and 2010:

	2012		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P 275,294	P -	P 275,294
Investment income	15,210	452	15,662
Others	970	750,373	751,343
	291,474	750,825	1,042,299
Expenses	2,493,150	1,510,355	4,003,505
Operating Loss	P 2,201,676	P 759,531	P 2,961,206
Non-controlling interest in Net losses of subsidiary			(780,626)
Net Loss			P 2,180,580
Segment assets	P 9,700,631	P 54,667,032	P 64,367,663
Goodwill			4,814,856
Total assets			P 69,182,519
Segment liabilities	P 72,195,669	P 117,228,071	P 189,423,740

	2011		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P 860,294	P	P 860,294
Investment income	179,060	763	179,823
Others	869		869
Gross revenues	1,040,223	763	1,040,986
Expenses	2,552,281	1,218,134	3,770,415
Operating loss	(P 1,512,058)	(P 1,217,371)	(2,729,429)
Non-controlling interest in net losses of subsidiary			536,116
Net loss			(P 2,193,313)
Segment assets	P 188,003,033	P 33,310,242	P 221,313,275
Goodwill			4,814,856
Total assets			P 226,128,131
Segment liabilities	P 46,470,040	P 141,886,990	P 188,357,030

	2010		
	Investment Banking	Investment Holding	Total
Income:			
Professional fees	P860,294	-	P860,294
Investment income	245,002	447	245,449
Other income	50,553	-	50,553
Gross revenues	1,155,849	404	1,156,296
Expenses	2,790,696	1,093,428	3,884,124
Operating loss	(P 1,634,847)	(P 1,092,981)	(2,727,828)
Minority interest in net losses of subsidiary			(579,651)
Net loss			(P 2,148,177)
Segment assets	P 416,239,291	P 35,103,671	P 451,342,962
Goodwill			4,814,856
Total assets			P 456,157,818
Segment liabilities	P 41,458,374	P 150,380,883	P 191,839,257

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.1 Foreign Currency Risk

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

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

5.2 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At March 31, 2012 and December 31, 2011, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.3 Liquidity Risk

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

As at March 31, the Group's financial assets and liabilities with their corresponding contractual maturities are shown below.

	Consolidated					
	2012			2011		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 26,125,468	P	P 26,125,468	P 27,995,818	P -	P 27,995,818
Available-for sale financial assets		31,293,500	31,293,500	-	31,823,600	31,823,600
Loans and receivables (at gross)	8,208	40,313,000	40,321,208	29,203	40,538,970	40,568,173
	P 26,133.676	P 71,606,500	P 97,740,176	P 28,025,021	P 72,362,570	P 100,387,591
Financial Liabilities:						
Due to related parties	P 126,827,220	P -	P 126,827,220	P 184,795,072	P -	P 184,795,072
Accounts payable and accrued expenses	60,223,426	-	60,223,426	2,310,109	-	2,310,109
	P 187,050,646	P -	P 187,050,646	P 187,105,181	P -	P 187,105,181

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

5.4 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparty, identified either individually or by group, and incorporates this information into its credit risk controls.

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

		Consolidated		Parent Company	
	Notes	**2012**	2011	**2012**	2011
Cash	7	P 26,125,468	P 27,995,818	**P** 22,574,633	P 23,448,442
Receivables	9	8,208	255,173	8.208	44,557
Due from related parties	13	2,565,089	2,762,344	-	-
Other assets	11	384,687	384,687	-	-
		P 29,083,452	P 31,398,022	P 22,582,841	P 23,492,999

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. There are no significant past due financial assets.

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

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

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

6.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by selecting best investment options commensurate with the level of risk. With the current financial condition of the Group, the management is working closely with the BOD for a potential recapitalization of the Group which it will then be able to use in its future investing activities (see Note 1.2).

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

The Group's and parent company's total capital deficiency amounted to P120,241,211 and P1,812,080, respectively, as of March 31, 2012. The Group's and parent company's total capital deficiency amounted to P117,663,230 and P1,052,549 respectively, as of December 31, 2011.

As of March 31, 2012 and December 31, 2011, the Group is not subject to any externally imposed capital requirements.

7. CASH AND CASH EQUIVALENTS

This account consists of:

		Consolidated		Parent Company	
	Note	**2012**	2011	**2012**	2011
Cash on hand		**P** 8,000	P 8,000	**P -**	P -
Cash in banks	13.4	4,066,505	2,458,376	523,670	415,300
Short-term placements		22,050,963	25,529,442	22,050,963	23,033,142
		P 26,125,468	P 27,995,818	**P** 22,574,633	P 23,448,442

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

Short-term placements are made for varying periods of between 30 to 90 days and earn annual effective interest ranging from 1.75% to 3.75% in 2012.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cost				
Quoted	P 967	P 1,083,578	P **-**	P -
Not quoted	76,292,533	76,292,533	76,268,750	76,268,750
	76,293,500	77,376,111	76,268,750	76,268,750
Allowance for impairment	(45,000,000)	(45,000,000)	(45,000,000)	(45,000,000)
	31,293,500	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	**-**	(552,511)	**-**	-
	P 31,293,500	P 31,823,600	P 31,268,750	P 31,268,750

The investment in available-for-sale financial assets of the Group as of December 31, 2011 and 2010 pertains to the 18.18% investment in Manila Exposition Complex, Inc. (P31,268,750) and 10% investment in I-Mart Corporation (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

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

9. RECEIVABLES

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Accounts receivable	P 40,**321,20**	P 40,538,970	P 40,**321,208**	P 40,335,736
Interest receivable	**-**	29,203	-	21,821
	40,321,208	40,568,173	40,321,208	40,357,557
Allowance for impairment	(40,313,000)	(40,31 3,000)	(40,313,000)	(40,313,000)
	P 8,208	P 255,173	P 8,208	P 44,557

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

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

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

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

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

EIB is considered an associate because the Group has significant influence over EIB; certain members of the Group's BOD are also members of the BOD of EIB.

No quoted market values were available for the investment in EIB since May 15, 2009 as EIB shares were suspended for trading. On July 30, 2010, the BOD of EIB approved the sale of all of EIB's assets to BDO Unibank, Inc. (BDO Unibank), in consideration of BDO's assumption of all of EIB's liabilities, including its deposit liabilities. On April 13, 2011, EIB received the approval by the Philippine Deposit Insurance Corporation, subject to definitive agreements and certain closing conditions, which include the final approval by the Bangko Sentral ng Pilipinas. As a result of EIB's sale of assets and transfer of liabilities to BDO, EIB will cease to operate as a commercial bank.

In view of these developments in 2011, the management of the Group believes that it may no longer recover its investment in EIB; hence, decided to provide full allowance for impairment on the investment's carrying value of P148,746,260 in 2011. As of March 31, 2012, the investment has a zero carrying value.

On April 26, 2012, pursuant to Section 30 of Republic Act No. 7653 (New Central Bank Act), the Monetary Board decided in its Resolution No. 686 to prohibit EIB from doing business in the Philippines and to place EIB under receivership with the Philippine Deposit Insurance Corporation (PDIC) as te designated receiver. The PDIC took over EIB and all its branches, assets, records and affairs on April 27, 2012.

11. OTHER ASSETS

This account consists of the following:

	Notes	Consolidated 2012	Consolidated 2011	Parent Company 2012	Parent Company 2011
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable withholding tax		3,091,146	3,049,852	-	-
Security deposits	13.1	384,687	384,687	-	-
Miscellaneous	19.1	899,565	850,267	815,441	766,142
		P 9,190,254	P 9,099,662	P 815,441	P 766,142

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of March 31, 2012 and December 31, 2011 no impairment loss was recognized by the Group.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Consolidated 2012	Consolidated 2011	Parent Company 2012	Parent Company 2011
Accounts payable		P 888	P 1,541,750	**P -**	P -
Rent payable	13.1	133,299	133,299	**-**	-
Withholding tax payable		154,871	114,544	85,281	67,944
Percentage tax payable		-	6,977	-	-
Income tax payable		30	30	30	30
Other payable		59,769,400	-	59,769,400	-
Accrued and other payables		164,938	635,061	73,655	292,322
		P60,223,426	P 2,431,661	P 58,928,336	P 360,296

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

13. RELATED PARTY TRANSACTIONS

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

13.1 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership of Lippo Group in Hong Kong, for a period of one year, renewable upon mutual agreement of the parties. Total rental charged to operations amounted to P382,846 for the first quarter ended March 31, 2012, 2011 and 2010 for the Group, and P312,000 in each of the quarters presented for the parent company. These are included as part Occupancy in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 on March 31, 2012 and December 31, 2011 are included as part of Other Assets in the statements of financial position (see Note 11). Outstanding payable arising from these transactions amounted to P133,299 for the Group as of March 31, 2012 and December 31, 2011 (nil for parent company) and is presented as Rent payable under Accounts Payable and Accrued Expenses in the statements of financial position (see Note 12).

13.2 Due from Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Solid Payback Holdings, Inc.	P 452,454	P 452,454	P -	P -
Bountiful Bancresources Holdings, Inc.	429,504	429,504	-	-
Lippo Securities, Inc. (LSI)	1,381	333,458	-	-
Lead Bancfund Corp.	326,916	326,916	-	-
Apex Bancrights Corp.	325,866	325,866	-	-
Goldwin Bancshares, Inc.	308,192	308,192	-	-
Cardinal Bancresources, Inc.	307,151	307,151	-	-
Due to other related parties	413,622	278,803	-	-
MAIC	-	-	**-**	49,733,878
	P 2,565,089	P 2,762,344	**P -**	P 49,733,878

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

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

13.3 Due to Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
LCR	P 62,393,568	P 178,292,546	**P -**	P 117,600,526
Citivest Asia Limited	57,831,127		57,831,127	
Bountiful Bancresources Holdings, Inc.	3,552,525	3,552,525	3,552,525	3,552,525
LSI	3,050,000	2,950,000	3,050,000	2,950,000
	P 126,827,220	P 184,795,072	**P** 64,433,652	P 124,103,052

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

13.4 Cash in Bank

The Group has bank deposits with EIB amounting to P 225,444 and P361,992 as of March 31, 2012 and December 31, 2011, respectively (nil for the parent company in both years (see Note 7).

14. EMPLOYEE BENEFITS

The Group maintains a non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The latest actuarial valuation report is as of December 31, 2011.

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

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

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

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

As of March 31, 2012 and December 31, 2011, the plan assets consist of the following:

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

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

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

The Group and the parent company expects to pay P717,849 and P296,208, respectively, in contributions to retirement benefit plans in 2012.

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

	2011	2010	2009
Discount rates	**6.62%**	8.09%	9.52%
Expected rate of return on plan assets	**4.00%**	4.00%	4.00%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

15. TAXES

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

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

16. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended March 31, 2012, 2011 and 2010 are computed as follows:

		2012	2011	2010
a.	Net loss	₱ 2,180,580	₱ 2,193,313	₱2,148,177
b.	Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c.	Basic EPS (a/b)	(₱0.003)	(₱0.003)	(₱0.003)

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

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the financial statements. As of March 31, 2012, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

MEDCO HOLDINGS, INC.and SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
As of March 31, 2012

		NO OF DAYS OUTSTANDING				
	AMOUNT	**1 -30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**Over 120 days**
Various	P 8,208					P8,208