



MEDCO HOLDINGS, INC.

April 30, 2013

PHILIPPINE STOCK EXCHANGE, INC.

PSE Center, Exchange Road

Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**

Head- Disclosure Department

Re: **SEC Form 17-A**

Gentlemen:

In compliance with the Philippine Stock Exchange ("PSE") Disclosure Rules, please find attached the SEC Form 17-A for the year ended December 31, 2012 of Medco Holdings, Inc.

We trust that you will find the foregoing in order.

Very truly yours,

MA. LOURDES B. BATHAN

Corporate Information Officer

COVER SHEET

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SEC Registration Number

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(Company’s Full Name)

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

Dionisio E. Carpio, Jr.

(Contact Person)

811-0465

(Company Telephone Number)

12

31

MonthDay

(Fiscal Year)

F O R M 17 - A

(Form Type)

MonthDay

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

DomesticForeign

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**

**FORM 17-A (AMENDED)
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the year ended **31 December 2012**

2. SEC Identification Number **39652**

3. BIR Tax Identification No. **004-844-938**

4. **Medco Holdings, Inc.**

Exact name of registrant as specified in its charter

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

6. (SEC Use Only)
Industry Classification Code:

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

1229
Postal Code

8. Registrant's telephone number, including area code: **(632) 811-0465 to 66**

9. Former name, former address, and former fiscal year, if changed since last report. **Not applicable.**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec 4 and 8 of the RSA

Title of each class

Number of shares of common stock
outstanding and amount of debt outstanding

Common

**700,000,000 shares (P1.00 par value per
share)**

11. Are any or all of these securities listed on a Stock Exchange. Yes [/] No []

Philippine Stock Exchange (PSE)
Name of Stock Exchange

Common
Class of securities listed therein

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the 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 []

- 13.** As at 25 April 2013, the aggregate market value of the voting stock held by non-affiliates of the registrant was ₱169,958,295 (based on the closing price of ₱0.45 per share on April 25, 2013).

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(2). Business of Issuer

Medco Holdings, Inc. ("MHI" or "MED" or the "Corporation") 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 the Corporation. In 1997, Citivest purchased additional MED shares which increased its equity stake to 70.67%. The Lippo Group is a major Asia Pacific business conglomerate principally involved in investment holding, property investment, property development, hotel operation, food business, property management, project management, mineral exploration, extraction and processing, fund management, underwriting, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other related financial services. It has operating units and representative offices in major Asian countries. 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. LCR's subsidiaries and associates are mainly engaged in investment holding, property investment, property development, food business, property management, mineral exploration, extraction and processing, securities investment, treasury investment and money lending.

Prior to the Lippo Group's acquisition of a majority interest in the Corporation, MHI was engaged in mineral exploration and development. With the entry of the Lippo Group in the middle of fiscal 1995, the Corporation 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 Corporation 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 Corporation 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 and trade development (operation of exhibition halls and conference facilities).

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

Details of the principal subsidiary and affiliated companies and their activities as at 31 December 2012 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Fully paid-up common share capital</u>	<u>Percentage of direct equity ownership of MHI</u>	<u>Principal Activities</u>
Medco Asia Investment Corp.	Philippines	₱269,250,000	64.54%	Investment banking

<u>Name</u>	<u>Place of incorporation</u>	<u>Fully paid-up common share capital</u>	<u>Percentage of direct equity ownership of MHI</u>	<u>Principal Activities</u>
Export & Industry Bank, Inc (In receivership)	Philippines	P4,734,452,540	2.45%	Commercial banking
Manila Exposition Complex, Inc.	Philippines	P165,000,000	18.18%	Exhibition hall operation

Medco Asia Investment Corp. (“MAIC”)

In June 1996, the Corporation 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. As of 2010, MAIC was 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, its 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, the Corporation remitted P 50.5 million to MAIC representing its deposit for an additional subscription of common shares of MAIC. This additional investment was made to enable MAIC 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 the Corporation's equity stake in MAIC to 64.54%

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 had resulted in 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”) (In receivership)

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 Corporation's interest in Exportbank decreased from 29.83% to 17.49%.

In October 1, 2003, Exportbank 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 Corporation'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.

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 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 the Republic Act (R.A) No. 7653 (the New Central Bank Act). The Philippine Deposit Insurance has been designated as Receiver of the aforementioned commercial bank.

Other Affiliate

Manila Exposition Complex, Inc. is not a significant affiliate of the Corporation.

Percentage of Sales or Revenues and Net Income Contributed by Foreign Sales

During the year under review, there were no sales or revenues and net income contributed by foreign sales, not since the time deposit placements in Hong Kong were terminated in January 2009.

Distribution Methods of the Products or Services

The Corporation, does not produce or sell any product, or offer any service. On the other hand, its significant subsidiaries do not employ any third party distributors or agents to distribute their products and services.

Status of any publicly-announced new products or service

None

Competition

The still-unfavorable capital market environment continued to adversely affect the business prospects for the Corporation's principal subsidiary, MAIC. Thus, on 10 August 2010, MAIC filed with the SEC a request for the voluntary cancellation of its investment house license.

Sources and Availability of Raw Materials and Names of Principal Suppliers.

The Corporation as well as its significant subsidiary, MAIC, are not into manufacturing and have no need of raw materials for its businesses.

Dependence on Single Customer

The Corporation's significant subsidiary, MAIC, is not dependent on any single customer or just a few customers.

Transactions with Related Parties

The Corporation as well as its significant subsidiary, MAIC, borrow funds occasionally for their working capital requirements. Apart from these, there are no other transactions with related parties.

Expiration of Patents, Trademarks, Copyrights, Licenses, Franchise, Concessions and Royalty Agreements.

The Corporation as well as its significant subsidiary, MAIC, have not entered into agreements related to patents, trademarks, copyrights, licenses, franchise, concessions and royalty.

Need for Government Approvals of Principal Products or Services.

As mentioned above, MAIC is awaiting the formal approval of the SEC on its request for the voluntary cancellation of its investment house license.

Effects of Existing or Probable Governmental Regulations

The Corporation is subject to the rules and regulations of the SEC and the PSE. Exportbank is regulated by the BSP, PDIC and the SEC. The Corporation and its significant subsidiary are complying with existing government regulations which have been beneficial to their businesses. The Corporation is not aware of any probable government regulation that could have any adverse effect on its business.

Cost on Development Activities

None.

Cost and Effects of Compliance with Environmental Laws

None.

Total Number of Employees and Number of Full –Time Employees.

As of 31 December, 2012, the Corporation had three (3) employees. One was a clerical employee and two were administrative personnel. The Corporation does not anticipate any increase in the number of its employees within the ensuing twelve (12) months. There were no employees covered by a Collective Bargaining Agreement. There are no supplemental benefits or incentive arrangements. The Corporation's employees are not on strike and have never gone on strike in the past. .

Item 2. Properties

As at the end of 2012, the Corporation did not own any real property. It has been sharing office space at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City 1229, Metro Manila (the "Floor") with three other members of the Lippo Group of Companies in the Philippines, namely, MAIC, Lippo Securities, Inc. ("LSI"), and Capital Place International Limited ("CPIL"). The Floor has 4 condominium units, one of which is occupied by the Lippo Group. The Floor is owned by CPIL which is a wholly-owned subsidiary of LSI.

MAIC is renting 211.82 sq. meters of Unit C of the 31F of Rufino Pacific Tower, Ayala Avenue, Makati City, with annual rent payment of P1,219,384 for the year ended December 31, 2012.

Item 3. Legal Proceedings

As at 31 December 2012 and as far as the management of the Corporation is aware, there are no pending material legal proceedings to which the Corporation or of its subsidiary, MAIC, is a party or of which any of its property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The Corporation's common shares are listed and traded on the PSE. However, the Corporation 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 P0.47 per share was the last recorded transaction prior to its voluntary trading suspension. PSE has lifted the said trading suspension on 19 March 2013.

The high and low price for the first quarter of 2013

1st Quarter
High Low
P0.73 P0.20

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

<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
<u>High</u> <u>Low</u>	<u>High</u> <u>Low</u>	<u>High</u> <u>Low</u>	<u>High</u> <u>Low</u>
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:

<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
<u>High</u> <u>Low</u>	<u>High</u> <u>Low</u>	<u>High</u> <u>Low</u>	<u>High</u> <u>Low</u>
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:

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

Recent Sales of Unregistered Securities. -- NONE

Holders, Dividends and Sale of Unregistered Securities

Based on the records of the Corporation's stock transfer office, Philippine Stock Transfer, Inc., as at 25 April 2013, there were 684 holders of the common stock of the Corporation.

As at 25 April, 2013, the number of shares held by public was 377,634,076 shares.

No cash dividends have been declared by the Corporation 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 the Corporation's cash flow, future expansion plans and prevailing bank interest rates.

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

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with Item 1 of this report and the Audited Financial Statements and the related Notes to Financial Statements in Exhibit A of this Report.

Plan of Operation

The Corporation incurred recurring net losses of P14,313,219, P163,318,016 and P226,284,153 on a consolidated basis for the years ended December 31, 2012, 2011 and 2010, respectively. The Corporation also reported deficits of P840,245,508 and P828,779,176 as of December 31, 2012 and 2011, respectively. Despite having incurred such deficits, management believes that the Corporation will be able to turnaround and achieve positive operations in future years.

As at December 31, 2012, the equity attributable to the stockholders of the parent Corporation, as stated in the balance sheets, has resulted to a capital deficiency amounting to P114,746,344 on a consolidated basis. Thus, on 1 March 2013, the Corporation submitted its proposed recapitalization plan. At its forthcoming annual stockholders' meeting, the Corporation will obtain stockholders' approval on its proposed recapitalization plan involving the following:

1. Decrease in authorized capital from P700 million to P7 million through reduction in parvalue per MED share from P1.00 to P0.01 and the use of the additional paid-in capital thereby created, in addition to the current additional paid-in capital balance, to reduce the Corporation's deficit;
2. Increase in authorized capital from P7 million divided into 700 million shares with par value of P0.01 per share to P470 million divided into 47 billion shares with par value of P0.01 per share;
3. Grant of authority to the Board of Directors to issue up to 11.77 billion shares out of the increase in authorized capital stock at an issue price of Php0.01 per share, or at par value, to such persons as the Board of Directors may determine;
4. Private placement transaction involving the issuance of new common shares of the Corporation to such persons as the Board of Directors may determine; and
5. Waiver of the requirement to conduct a rights offering by a majority vote of the minority stockholders present or represented during the meeting.

Immediately thereafter, the Corporation will submit its respective applications to the Securities and Exchange Commission (SEC) covering the necessary amendments to its Articles of Incorporation to enable the Corporation to implement the foregoing transactions, including an application for a capital restructuring involving the reduction of the Corporation's accumulated deficit through the offsetting thereof against the additional paid-in capital created by the aforementioned reduction of the par value of MED shares in addition to the current additional paid-in capital balance.

The Corporation is expected to have obtained in the early part of the third quarter of 2013 the SEC registration of certificates covering the SEC approval of the proposed decrease in its authorized capital and on its capital restructuring transactions. Shortly thereafter, the private placement participants will enter into subscription agreements with the Corporation and remit their cash injections to the Corporation totaling approximately P117.6 million as deposits for their respective future subscriptions of MED shares. Subsequently, the Corporation will submit the application for capital increase with the SEC.

Barring any unforeseen delay, the Corporation is expected to have obtained in the beginning of the fourth quarter of 2013 the SEC registration certificate covering the SEC approval on the proposed increase in the authorized capital of the Corporation. This will allow the Corporation to reclassify the aforementioned subscription deposits to paid-in capital thereby completing its recapitalization and enabling the Corporation to attain a positive stockholders' equity. The Corporation will utilize the proceeds of the said recapitalization to pay-off its existing debts. Shortly thereafter, the Corporation will submit its application with the PSE for the listing of the newly-issued shares.

The Corporation is confident that it can satisfy its cash requirements not only in the next twelve (12) months but also on a long- term basis. Its liquid assets on a consolidated basis, which as at December 31, 2012 consisted of P14.2 million of cash and cash equivalents and short-term investments. In case the Corporation has any unforeseen cash requirement that cannot be met by its internal sources, its external sources of liquidity would consist of, among others, advances from its affiliate companies and/or major shareholders.

.As of December 31, 2012, there were three (3) employees of the Corporation. One was a clerical employee and the remaining two were administrative personnel. The Company does not anticipate any increase in the number of its employees within the ensuing twelve (12) months.

Results of Operations for the years ended December 31, 2012, 2011 and 2010

2012

Total consolidated revenues for the year ended 2012 decreased by approximately 73% compared to the previous year. Consolidated revenues for this year consisted mainly of dividend income (46%), fees and other commission (22%), interest income from short-term placement (19%) and other income (13%).

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 deposit placements due to withdrawals for the Corporation's working capital requirements.

On the other hand, total consolidated expenses decreased by approximately 90% compared to the prior year. The expenses for this year were composed of employee benefits (51%), occupancy (10%), representation (9%), professional fees (7%), unrealized foreign exchange loss (5%) and other expenses (18%).

The decline in the 2012 consolidated expenses relative to 2011 was mainly due to the booking in 2011 of a non-recurring full impairment loss provision on the investment of the Corporation's subsidiary in Exportbank amounting to P148.7 million.

Other expenses, such as representation, and professional and management fees also posted a decrease in the year under review. This was the result of the Corporation's continuing cost-cutting measures.

Prior Period Adjustments in 2011

In 2011, the Corporation had opted not to provide in its separate financial statements as Parent Company a full impairment allowance on the carrying value of its investment in MAIC amounting to P68.3 million and it also opted not to recognize the impairment loss, on a consolidated basis, on the goodwill related to its investment in MAIC. Then, in 2012, management decided for the sake of conservatism to retrospectively recognize as at December 31, 2011 the full impairment of the carrying value of the Corporation's said investment in MAIC and of the goodwill related thereto. Thus, the balance of the Deficit account as at January 1, 2012 was correspondingly adjusted to reflect the said retrospective adjustments. As at January 1, 2012, the net adjustments in the balance of the Deficit

of the Parent Company amounted to P68.3 million and, on a consolidated basis, it amounted to P4.8 million.

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 Corporation'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 28% (as restated) 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 Corporation's subsidiary in Exportbank and, retrospectively, on the Corporation's investment in MAIC (as discussed above) which have carrying values of P148.7 million and P68.3 million as of December 31, 2011, respectively, , in addition to the prior impairment losses already recognized in 2010 and 2009 amounting to P218.1 million and P15.3 million, 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 Corporation'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 Corporation's subsidiary in Exportbank. The Corporation 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 Corporation'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.

Financial Condition and Changes in Financial Condition as of December 31, 2012, 2011 and 2010

2012

As to the balance sheet as at the end of this year, total assets decreased by 21% compared to the previous year. Total assets were mainly composed of available-for-sale investments (59%), cash and cash equivalents (27%), due from affiliates and other receivables(6%) and other assets (8%).

As mentioned in the foregoing section, the decline in the cash and cash equivalent account was due to the withdrawals in the deposit placements that were used for the Corporation's working capital requirements and or the payment of certain liabilities such as the retirement benefit obligation and accounts payable and accrued expenses.

On the liabilities side, there was no significant change as compared to the prior year. The decreases in the accounts payable and accrued expenses and the retirement benefit obligation were due to the aforementioned payments.

As at December 31, 2012, the total shareholders' fund of the Corporation on a consolidated basis resulted in a capital deficiency of P114.7 million.

2011

As to the balance sheet as at the end of 2011, total assets declined significantly by 71% (as restated) compared to last year. Total assets were mainly composed of cash and cash equivalents (47%), available-for-sale financial assets (42%), other assets (6%), and due from affiliates and other receivables (5%).

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 Corporation's subsidiary in Exportbank and on the Corporation's investment in MAIC.. Thus, as at December 31, 2011, the investments in a subsidiary and an associate account reflected a zero balance .

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 Corporation'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 Corporation on a consolidated basis resulted to a capital deficiency of P103.6 million (as restated).

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 Corporation'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 Corporation'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 Corporation, 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.

Prospects for 2013

As stated in the foregoing Plan of Operation, the Corporation intends to fully implement its recapitalization plan within the current year.

On the macroeconomic level, the year 2013 appears to be another good year as growth in the country's economy this year could match the strong GDP performance exhibited last year. Furthermore, local business sentiment as well as foreign investors' perception of and interest in the Philippines as an investment venue remain quite favorable. Moving forward, such positive factors augur well for the realization of the Corporation's envisioned future plans for profit enhancement through the closing of a number of potential new investment transactions in the near term.

Key Variable and Other Qualitative and Quantitative Factors

The Corporation 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 Corporation does not also anticipate any liquidity problem within the next twelve (12) months. The Corporation 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 Corporation's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at December 31, 2012 consisted of P14.2 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 Corporation, 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 Corporation 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 Corporation is also not aware of any events that will cause a material change in the relationship between the costs and revenues.

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

- a. Revenue Growth- This measures how fast the Corporation's business is expanding. The ratio shows the annualized rate of increase (or decrease) of the Corporation's revenues.
- b. Net Income Growth- Similar to revenue growth, this ratio is an indicator of the rate of growth of the Corporation'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 Corporation's ability to pay its currently maturing obligations.
- e. Debt-to-Equity Ratio- This ratio offers a method of assessing the Corporation's financial health and gauging the balance sheet durability.

Top Five (5) Performance Indicators

December 31, 2012, 2011 and 2010

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2012	2011	2010	2012	2011	2010
1. Revenue Growth	<u>Revenue Y1-Y0</u>						
	Revenue Y0	-72.49%	-23.50%	-13.01%	-85.28%	-8.64%	-39.45%
2. Net Income Growth*	<u>Net Loss Y1-Y0</u>						
	Net Loss Y0	NA	NA	NA	NA	NA	NA
3. Return on Equity**	<u>Net Income</u> Ave. Stockholders' Equity	NA	NA	-147.01%	NA	NA	-220.52%
4. Current Ratio	<u>Current Assets</u> Current Liabilities	0.09x	0.17x	0.21x	0.10x	0.15x	0.43x
5. Debt-to-Equity- Ratio**	<u>Total Liabilities</u> Stockholders' Equity	NA	NA	4.62x	NA	NA	0.95x

* Losses

** Capital Deficiency in 2012 and 2011

Note:

Y1= Current year

Y0= Previous year

Item 7. Financial Statements

The consolidated Financial Statements and related Notes to Financial Statements of MHI for the past 3 years ended 31 December 2012 appear on the Index to Financial Statements and Supplementary Schedules page of this Report.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

NONE

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

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

The current members of the Corporation'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, aged sixty three (63), has been a director of the Corporation since September 18, 2006 and has been appointed as the Chairman of the Board of Directors on July 23, 2009. He has more than thirty (30) years experience in banking and finance.

DIONISIO E. CARPIO, JR., Filipino, aged sixty-six (66), has been a director of the Corporation since 1998 and its President from September 2006 up to present. He was the treasurer of the Corporation from 1998 to 2006. He is the senior vice president, treasurer and director of MAIC since September 1, 1997 up to present. He is currently also a director of Manila Exposition Complex, Inc.. 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-six (36) years experience in commercial, investment and trust banking, as well as line management.

CALY D. ANG, Filipino, aged sixty four (64), has been a director of the Corporation and of MAIC since 1995. She has been an independent director of the Corporation 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, aged forty four (44), has been a director of the Corporation since 1998 to the present. He has been an independent director of the Corporation 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, aged sixty five (65), has been a director of the Corporation since 2000 and was its Treasurer between 2006 and 2007. She is also director of MAIC. 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, aged forty two (42), has been a director of the Corporation since 2009. She has been the treasurer and compliance officer of the Corporation since September 20, 2007. She worked in The HongKong Chinese Bank, Limited in 1994. She was a director of Lippo Securities, Inc. and of MAIC from 1995 to 1999 and of Manila Exposition Complex, Inc. from 1995 to 2000 and from 2012 to the present. She was also the Managing Director of Sun Hung Kai Securities Philippines, Inc. from 1999 to June 2000.

SAY HING WONG, British, aged sixty three (63), is a director of the Corporation. He has been a director of the Corporation since 2003 to the present. He graduated from Hong Kong

Polytechnic and 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.

Mr. Solomon R. B. Castro has been an independent director since 2002. Mrs. 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.

Executive Officers

The following are the principal officers of the Corporation:

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, aged fifty nine (59), is the corporate secretary of the Corporation. 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, aged thirty-nine (39), is the corporate information officer of the Corporation. She has been the corporate information officer since 2003 up to present. She is also the principal accounting officer of the Corporation 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.

(2) Significant Employees

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

(3) Family Relationship

None.

(4) Involvement in Certain Legal Proceedings

Based on their individual responses after due inquiry as of April 25, 2013, 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 Corporation:

- (a) 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, Inc. ("EIB), pursuant to Monetary Board ("MB") Resolution No. 686 dated 26 April 2012, was ordered closed by 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 30 September 2011.
- (b) 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;
- (c) 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
- (d) 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.

Item 10. Executive Compensation

(1) Annual Compensation of the Top Executive Officers of the Corporation

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Dionisio E. Carpio, Jr. (President)	2011	None	None	P45,000
	2012	None	None	P45,000
	2013 (Estimated)	None	None	P45,000
Pauline C. Tan (Treasurer and Compliance Officer)	2011	P1,300,000	None	P45,000
	2012	P2,340,000	None	P45,000
	2013 (Estimated)	P2,340,000	None	P45,000
Ma. Lourdes B. Bathan (Corporate information officer)	2011	P780,000	None	None
	2012	P780,000	None	None
	2013 (Estimated)	P780,000	None	None
All Top Executive Officers and Directors as a group	2011	P2,080,000	None	P315,000
	2012	P3,120,000	None	P315,000
	2013 (Estimated)	P3,120,000	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.

(2) 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 Corporation 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 Corporation does not foresee payment of compensation for directors, except reasonable *per diems* annually for each director. The Corporation, however, does not discount the possibility that director compensation other than reasonable *per diems* may be given in the future.

(3) Pursuant to Article VI, Section 8 of the Amended By-Laws of the Corporation, 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 Corporation for the preceding year.

(a) Employment Contracts

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

(b) Compensatory Plan or Arrangement

There are formal compensatory plan or arrangement between the Corporation and its executive officers and other officers.

(d) Warrants and Options Outstanding

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

Item 11. Security Ownership of Certain Beneficial Owners and Management-

Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Corporation's Outstanding Stock as of 25 April 2013:

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	Citivist Asia Limited C/o Room 2301, Tower One, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Citivist Asia Limited C/o Room 2301, Tower One, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Foreign	322,314,901	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	162,040,156	23.15%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue Makati City (No Relationship with Issuer)	Various beneficial owners, each having less than 5%	Foreign	35,768,000	5.11%

Security Ownership of Management

To the extent known to the Board of Directors, as of April 25, 2013, there is no security beneficial ownership of Management, other than the shares held for their own account by the following directors:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Ownership
Common Stock	Dionisio E. Carpio, Jr.	1,000	(direct)	Filipino	Nil
Common Stock	Edna D. Reyes	50,000	(direct)	Filipino	Nil
	TOTAL	51,000			

Aside from the above, Mr. Carpio and other directors hold qualifying shares in the Corporation. Such shares are held by them as nominees for and on behalf of Citivist Asia Limited, details of which are as follows: Mr. Carpio holds 8 of such shares; Mr. Solomon R.B. Castro holds 11 shares; and Ms. Pauline C. Tan, Ms. Caly D. Ang, Mr. Say Hing Wong and Mr. Bobby Cheng Sai Chong individually hold 1 share each.

Voting Trust Holders of 5% or More - None

Changes in Control - None

Item 12. Certain Relationships and Related Transactions (See Note 13 of the Notes to the Financial Statements)

The Corporation 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, 2012.

Item 13. Corporate Governance

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

The Corporation has accomplished and submitted its Corporate Governance Self-Rating Form ("CG-SRF") to the SEC. The Corporation 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 Corporation 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 Corporation submits a certification of the attendance of its directors in meetings of the Board of Directors with such attendance having consistently complied with regulatory requirements.

- b. Measures being undertaken by the Corporation 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 Corporation'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 Corporation 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 Corporation'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 Corporation 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 Corporation.

The Corporation accomplishes and submits its Corporate Governance Self-Rating Form (“CG-SRF”) to the SEC annually. The Corporation 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.

PART IV - EXHIBITS AND SCHEDULES

	<u>Page/Incorporation by Reference</u>
(1) Financial Statements Consolidated Balance Sheets Consolidated Statements of Income Consolidated Statements of Cash Flow Notes to Financial Statements	Please see accompanying Index to Financial Statements and Supplementary Schedules
(2) Plan of Acquisition	not applicable
(3) Instruments Defining the Rights of Securities Holders	not applicable
(4) Voting Trust Agreement	not applicable
(5) Annual Report to Security Holders	not applicable
(6) Change in Certifying Accountant	not applicable
(7) Report furnished to Security Holders	not applicable
(8) Subsidiaries of the Registrant	1
(9) Published Report Regarding Matter Submitted to Vote of Security Holders	not applicable
(10) Consents of Experts and Independent Counsel	not applicable
(11) Power of Attorney	not applicable

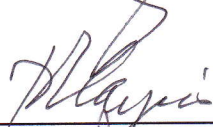
SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this Report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 30, 2013.

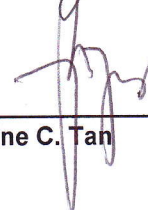
Signature



Sai Chong Cheng



Dionisio E. Carpio, Jr.



Pauline C. Tan

Capacity

Chairman of the Board

President

Treasurer

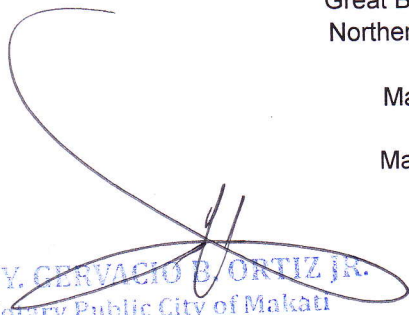
REPUBLIC OF THE PHILIPPINES)
 MAKATI CITY) S.S.

13 0 APR 2013

SUBSCRIBED AND SWORN to before me this _____, affiants exhibiting to me their
 Passport/SSS Numbers as follow:

NAMES	SSS / PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Sai Chong Cheng	752019881	July 9, 2007	United Kingdom of Great Britain and Northern Ireland
Dionisio E. Carpio, Jr	33-18894245		Manila
Pauline C. Tan	33-02936109		Manila

Doc. No. **256** ;
 Page No. **53** ;
 Book No. **2013** ;
 Series of 2013


ATTY. CERVACIO B. ORTIZ JR.
 Notary Public City of Makati
 Until December 31, 2014
 IBP No. 656155-Lifetime Member
 MCLE Compliance No. III-0014282
 Appointment No. M-199-(2013-2014)
 PTR No. 3664330 Jan. 2, 2013
 Makati City Roll No. 40091
 101 Urban Ave., Brgy. Pio del Pilar,
 Makati City

MEDCO HOLDINGS, INC. AND SUBSIDIARY
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2012

Statement of Management's Responsibility for Financial Statements
Report of Independent Public Accountants
Consolidated Balance Sheets as of December 31, 2012, 2011 and 2010
Consolidated Statement of Income and Retained Earnings for the years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash flows for the years Ended December 31, 2012, 2011 and 2010
Notes to Financial Statements

Report of Independent Auditors on Supplementary Schedules Filed Separately
from the Basic Financial Statements

(1) Supplementary Schedules to Financial Statements (*Annex 68-E, SRC Rule 68*)

<u>Schedule</u>	<u>Description</u>
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets- Other Assets
E	Long-term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock

(2) Reconciliation of Deficit

(3) Map Showing the Relationship Between and Among Related Entities

(4) List of Standards and Interpretation under Philippine Financial Reporting Standards
As of December 31, 2012



Medco Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

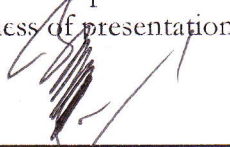
The management of **Medco Holdings, Inc.** (the Company), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012, 2011 and 2010 in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information attached therein:

- a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68;
- b. Reconciliation of Deficits Available for Dividend Declaration;
- c. Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2012; and,
- d. Map Showing the Relationship Between and Among the Company and its Related Entities.

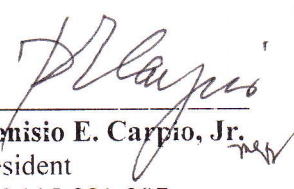
This responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

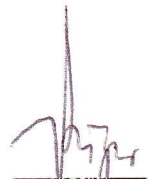
Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation 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 100-666-150

Signed this 15th day of March 2013



SUBSCRIBED AND SWORN to before me this APR 30 2013 day CITY OF MAKATI 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

Doc. No. 248

Page No. 5

Book No. XXI

Series of 2013.

ATTY. GERVACIO B. ORTIZ JR.

Notary Public City of Makati

Until December 31, 2014

IBP NO. 656155-Lifetime Member

MCLE Compliance No. III-0014282

Appointment No. 11-199 (2013-2014)

PTR No. 3664330 Jan. 2, 2013

Makati City Roll No. 40091

101 Urban Ave., Esgz. Pio del Pilar,
Makati City



Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886 5511
F +63 2 886 5506
www.punongbayan-araullo.com

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, 2012, 2011 and 2010, and the statements of comprehensive income, statements of changes in equity (capital deficiency) and statements of cash flows for the years then ended, 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.

Certified Public Accountants
P&A is a member firm within Grant Thornton International Ltd
Offices in Cebu, Davao, Cavite
BOA/PRC Cert. of Reg. No. 0002
SEC Group A Accreditation No. 0002-FR-3

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 Updating Qualified Opinion on the 2011 Financial Statements

In our previous report, dated April 12, 2012, on the consolidated financial statements of the Group and the separate financial statements of the Parent Company for the year ended December 31, 2011, we rendered a qualified opinion because of the nonrecognition of full allowance for impairment on the carrying value of the Group's goodwill amounting to P4.8 million and the carrying value of the Parent Company's investment in Medco Asia Investment Corporation amounting to P68.3 million. As fully discussed in Note 16, the 2011 financial statements have been restated to retroactively recognize the required allowance for impairment. Accordingly, our opinion on the 2011 financial statements is no longer qualified.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2012, 2011 and 2010, and their financial performance and their cash flows for the years then ended 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 provides relevant information on the current status of operations of the Group and the Parent Company and the issue on the recoverability of their investment in a commercial bank. As discussed therein, the Group and the Parent Company incurred significant recurring losses from operations, which is primarily due to impairment of investments, that has resulted in a deficit and capital deficiency both for the Group and the Parent Company as at December 31, 2012, 2011 and 2010. The investment in the commercial bank, which is now under receivership, represents substantially the assets of the Group and the Parent Company. These conditions indicate the existence of a material uncertainty which casts significant doubt on the ability of the Group to continue as a going concern. Nevertheless, as at December 31, 2012, the Group's management, in coordination with the Group's major shareholder, is finalizing the recapitalization plan of the Group as its initial step to address this material uncertainty. Also, to ensure that the Group can continue to operate as a going concern, its major shareholder will continue providing financial support to the Group until its financial condition and performance improve and it becomes self-sustaining again. In connection with our audit, we have performed audit procedures to evaluate management's plans as to likelihood to improve the situation and as to feasibility under the circumstances. The accompanying 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. The accompanying 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.

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, 2012 required by the Bureau of Internal Revenue as disclosed in Note 21 to the Parent Company's 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. Ferarezza
Partner

CPA Reg. No. 0097462

TIN 184-595-975

PTR No. 3671441, January 2, 2013, 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, 2015)

March 15, 2013

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

		Consolidated			Parent Company		
			2011			2011	
	Notes	2012	(As Restated - See Note 16)	2010	2012	(As Restated - See Note 16)	2010
<u>A S S E T S</u>							
CASH AND CASH EQUIVALENTS	7	P 14,163,249	P 27,995,818	P 39,053,962	P 12,602,959	P 23,448,442	P 1,867,236
AVAILABLE-FOR-SALE FINANCIAL ASSETS - Net	8	31,293,500	31,823,600	31,792,321	31,268,750	31,268,750	31,268,750
RECEIVABLES - Net	9	276,703	255,173	235,454	252,268	44,557	69,858
DUE FROM RELATED PARTIES	13	2,599,856	2,762,344	686,569	1,000,000	-	49,733,878
INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE - Net	10	-	-	148,746,260	-	-	68,285,821
OTHER ASSETS	11	4,447,280	4,284,806	8,771,916	873,408	766,142	950,647
TOTAL ASSETS		P 52,780,588	P 67,121,741	P 229,286,482	P 45,997,385	P 55,527,891	P 152,176,190
<u>LIABILITIES AND CAPITAL DEFICIENCY</u>							
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12	P 2,141,556	P 2,431,661	P 2,627,704	P 448,836	P 360,296	P 578,121
DUE TO RELATED PARTIES	13	185,033,103	184,795,072	183,364,277	120,787,809	124,103,052	148,675,260
RETIREMENT BENEFIT OBLIGATION	14	1,844,334	2,373,094	2,485,850	382,977	402,913	403,309
Total Liabilities		189,018,993	189,599,827	188,477,831	121,619,622	124,866,261	149,656,690
EQUITY (CAPITAL DEFICIENCY) ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	6	(114,746,344)	(103,636,876)	4,728,585	(75,622,237)	(69,338,370)	2,519,500
NON-CONTROLLING INTEREST		(21,492,061)	(18,841,210)	36,080,066	-	-	-
Total Equity (Capital Deficiency)		(136,238,405)	(122,478,086)	40,808,651	(75,622,237)	(69,338,370)	2,519,500
TOTAL LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		P 52,780,588	P 67,121,741	P 229,286,482	P 45,997,385	P 55,527,891	P 152,176,190

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	Consolidated			Parent Company		
		2012	2011 (As Restated - See Note 16)	2010	2012	2011 (As Restated - See Note 16)	2010
REVENUES							
Dividends	2	P 750,000	P 1,517,235	P 2,250,000	P 750,000	P 1,500,000	P 2,250,000
Professional fees	2	367,059	3,441,177	3,441,177	-	-	-
Interest	2, 7	307,765	837,462	1,268,133	237,784	29,692	3,059
Foreign exchange gain		76,533	8,360	-	-	8,360	-
Others		135,841	146,095	819,097	-	1,500	766,015
		<u>1,637,198</u>	<u>5,950,329</u>	<u>7,778,407</u>	<u>987,784</u>	<u>1,539,552</u>	<u>3,019,074</u>
EXPENSES							
Employee benefits	14	8,158,900	7,086,828	6,456,394	4,154,552	3,061,307	2,472,554
Occupancy	13	1,531,384	1,531,384	1,600,047	312,000	312,000	312,000
Representation		1,431,481	2,460,751	2,661,184	462,516	491,399	661,900
Professional and management fees		1,115,338	2,358,617	2,097,459	599,335	762,600	491,300
Taxes and licenses	21	127,076	305,062	348,629	30,463	21,675	276,735
Foreign exchange losses - net		812,681	14,589	804,766	807,248	-	3,040
Impairment loss	10, 11	-	153,561,116	218,135,140	-	68,285,821	131,710,108
Others		2,722,235	1,800,092	1,720,061	868,691	457,958	420,079
		<u>15,899,095</u>	<u>169,118,439</u>	<u>233,823,680</u>	<u>7,234,805</u>	<u>73,392,760</u>	<u>136,347,716</u>
LOSS BEFORE TAX		<u>14,261,897</u>	<u>163,168,110</u>	<u>226,045,273</u>	<u>6,247,021</u>	<u>71,853,208</u>	<u>133,328,642</u>
TAX EXPENSE	15	<u>51,322</u>	<u>149,906</u>	<u>238,880</u>	<u>36,846</u>	<u>4,662</u>	<u>15,932</u>
NET LOSS		<u>14,313,219</u>	<u>163,318,016</u>	<u>226,284,153</u>	<u>6,283,867</u>	<u>71,857,870</u>	<u>133,344,574</u>
OTHER COMPREHENSIVE INCOME							
Fair value gain on available-for-sale financial assets	8	(552,900)	(31,279)	(48,884)	-	-	-
TOTAL COMPREHENSIVE LOSS		<u>P 13,760,319</u>	<u>P 163,286,737</u>	<u>P 226,235,269</u>	<u>P 6,283,867</u>	<u>P 71,857,870</u>	<u>P 133,344,574</u>
Net Loss Attributable to:							
Shareholders of the Parent Company		P 11,466,332	P 108,385,650	P 146,632,372			
Non-controlling interest		<u>2,846,887</u>	<u>54,932,366</u>	<u>79,651,781</u>			
		<u>P 14,313,219</u>	<u>P 163,318,016</u>	<u>P 226,284,153</u>			
Total Comprehensive Loss Attributable to:							
Shareholders of the Parent Company		P 11,109,468	P 108,365,461	P 146,600,820			
Non-controlling interest		<u>2,650,851</u>	<u>54,921,276</u>	<u>79,634,449</u>			
		<u>P 13,760,319</u>	<u>P 163,286,737</u>	<u>P 226,235,269</u>			
Loss Per Share Attributable to the Shareholders of the Parent Company - Basic and Diluted	17	<u>P 0.02</u>	<u>P 0.15</u>	<u>P 0.21</u>	<u>P 0.01</u>	<u>P 0.10</u>	<u>P 0.19</u>

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

Consolidated									
Attributable to the Shareholders of the Parent Company									
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, 2012									
As previously reported	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)		
Effect of prior period adjustment	16 <u>-</u>	<u>-</u>	<u>-</u>	(<u>4,814,856</u>)	(<u>4,814,856</u>)	<u>-</u>	(<u>4,814,856</u>)		
As restated	700,000,000	25,498,912	(356,612)	(828,779,176)	(103,636,876)	(18,841,210)	(122,478,086)		
Total comprehensive loss									
Net loss for the year	-	-	-	(11,466,332)	(11,466,332)	(2,846,887)	(14,313,219)		
Fair value gain on available-for-sale financial asset	8 <u>-</u>	<u>-</u>	<u>356,864</u>	<u>-</u>	<u>356,864</u>	<u>196,036</u>	<u>552,900</u>		
Balance at December 31, 2012	6 <u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>P 252</u>	<u>(P 840,245,508)</u>	<u>(P 114,746,344)</u>	<u>(P 21,492,061)</u>	<u>(P 136,238,405)</u>		
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 loss									
Net loss for the year	-	-	-	(108,385,650)	(108,385,650)	(54,932,366)	(163,318,016)		
Fair value gain on available-for-sale financial asset	8 <u>-</u>	<u>-</u>	<u>20,189</u>	<u>-</u>	<u>20,189</u>	<u>11,090</u>	<u>31,279</u>		
Balance at December 31, 2011	6 <u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 356,612)</u>	<u>(P 828,779,176)</u>	<u>(P 103,636,876)</u>	<u>(P 18,841,210)</u>	<u>(P 122,478,086)</u>		
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 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	<u>-</u>	<u>-</u>	<u>31,552</u>	<u>-</u>	<u>31,552</u>	<u>17,332</u>	<u>48,884</u>		
Balance at December 31, 2010	6 <u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 376,801)</u>	<u>(P 720,393,526)</u>	<u>P 4,728,585</u>	<u>P 36,080,066</u>	<u>P 40,808,651</u>		

See Notes to Financial Statements.

MEDCO HOLDINGS, INC.
STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

Note	Parent Company			
	Capital Stock	Additional Paid-in Capital	Deficit	Total Equity (Capital Deficiency)
Balance at January 1, 2012				
As previously reported	P 700,000,000	P 25,498,912	(P 726,551,461)	(P 1,052,549)
Effect of prior period adjustment	<u>-</u>	<u>-</u>	(<u>68,285,821</u>)	(<u>68,285,821</u>)
As restated	700,000,000	25,498,912	(794,837,282)	(69,338,370)
Net loss for the year	<u>-</u>	<u>-</u>	(<u>6,283,867</u>)	(<u>6,283,867</u>)
Balance at December 31, 2012	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 801,121,149)</u>	<u>(P 75,622,237)</u>
Balance at January 1, 2011	P 700,000,000	P 25,498,912	(P 722,979,412)	P 2,519,500
Net loss for the year	<u>-</u>	<u>-</u>	(<u>71,857,870</u>)	(<u>71,857,870</u>)
Balance at December 31, 2011	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 794,837,282)</u>	<u>(P 69,338,370)</u>
Balance at January 1, 2010	P 700,000,000	P 25,498,912	(P 589,634,838)	P 135,864,074
Net loss for the year	<u>-</u>	<u>-</u>	(<u>133,344,574</u>)	(<u>133,344,574</u>)
Balance at December 31, 2010	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 722,979,412)</u>	<u>P 2,519,500</u>

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

Notes	Consolidated			Parent Company		
	2012	2011 (As Restated - See Note 16)	2010	2012	2011 (As Restated - See Note 16)	2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax	(P 14,261,897)	(P 163,168,110)	(P 226,045,273)	(P 6,247,021)	(P 71,853,208)	(P 133,328,642)
Adjustments for:						
Loss on sale on available-for-sale financial assets	574,165	-	-	-	-	-
Interest income	(307,765)	(982,057)	(1,268,133)	(237,784)	(29,692)	(2,447)
Unrealized foreign exchange loss (gain)	(76,533)	(8,360)	804,766	807,248	(8,360)	3,040
Impairment loss	-	153,561,116	218,135,140	-	68,285,821	131,710,108
Depreciation and amortization	-	-	16,604	-	-	-
Operating loss before working capital changes	(14,072,030)	(10,597,411)	(8,356,896)	(5,677,557)	(3,605,439)	(1,617,941)
Decrease (increase) in receivables	(21,530)	(2,095,494)	139,394	(207,711)	25,301	(6,782)
Decrease (increase) in other assets	(162,474)	(327,746)	(776,535)	(107,266)	184,506	(116,640)
Decrease (increase) in due from related parties	162,488	-	-	(1,000,000)	-	-
Increase (decrease) in accounts payable and accrued expenses	(290,104)	(196,043)	(222,665)	88,540	(217,825)	81,235
Increase (decrease) in retirement benefit obligation	(528,760)	(112,756)	535,481	(19,936)	396	182,889
Cash used in operations	(14,912,410)	(13,329,450)	(8,681,221)	(6,923,930)	(3,613,853)	(1,477,239)
Interest received	307,765	982,057	1,268,133	237,784	29,692	2,447
Cash paid for income taxes	(51,322)	(149,906)	(238,880)	(36,846)	(4,662)	(15,932)
Net Cash Used in Operating Activities	(14,655,967)	(12,497,299)	(7,651,968)	(6,722,992)	(3,588,823)	(1,490,724)
CASH FLOWS FROM INVESTING ACTIVITY						
Proceeds from sale of available-for-sale financial assets	508,834	-	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds of borrowings from related parties	116,838,557	1,430,795	-	-	25,161,670	3,540,989
Repayments of amounts due to related parties	(116,600,526)	-	(2,281,632)	(3,315,243)	-	(1,388,864)
Net Cash From (Used in) Financing Activities	238,031	1,430,795	(2,281,632)	(3,315,243)	25,161,670	2,152,125
Effect of Exchange Rate Changes on Cash and Cash Equivalents	76,533	8,360	(804,766)	(807,248)	8,360	(3,040)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,832,569)	(11,058,144)	(10,738,366)	(10,845,483)	21,581,207	658,361
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,995,818	39,053,962	49,792,328	23,448,442	1,867,236	1,208,875
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 14,163,249	P 27,995,818	P 39,053,962	P 12,602,959	P 23,448,442	P 1,867,236

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General Information

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

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

Notes:

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

MHI is 46.04% owned by Citivest Asia Limited (CAL), an entity engaged in investment holding and registered in the British Virgin Islands. In prior year, CAL divested a portion of its investment in MHI thereby reducing its equity stake to 46.04%. Since then, CAL had considered MHI as one of its principal associates.

The registered office of the Parent Company and its subsidiaries, which is also their principal place of business, is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City. The registered office and principal place of CAL is located at 3rd Floor, J & C Building, P.O. Box 362, Road Town, Tortola, British Virgin Islands.

1.2 Status of Operations

The Group incurred net losses of P14,313,219 in 2012, P163,318,016 in 2011 and P226,284,153 in 2010, while the Parent Company incurred net losses of P6,283,867 in 2012, P71,857,870 in 2011 and P133,344,574 in 2010. As a consequence of such recurring losses, the Group and the Parent Company reported a capital deficiency [as a result of substantial deficit, as shown in the statements of changes in equity (capital deficiency)] of P136,238,405 and P75,622,237, respectively, as at December 31, 2012 and P122,478,086 and P69,338,370, respectively, as at December 31, 2011. The substantial losses incurred by the Group particularly, in 2011 and 2010, are primarily due to impairment losses recognized during those years on their investments following the series of events involving EIB; the investment in EIB represents substantially the assets of the Group and the Parent Company. Based on EIB's public disclosures, all of its assets have been sold to a universal commercial bank (the Unibank) in the middle of 2010 subject to certain conditions. Accordingly, the Group recognized full impairment loss on the remaining carrying amount of its investment in EIB in 2011. Subsequently in April 2012, EIB was placed under receivership by the Bangko Sentral ng Pilipinas (BSP); hence, the sale of its assets did not materialize (see Note 10). These conditions indicate the existence of a material uncertainty which casts significant doubt on the ability of the Group to continue as a going concern. As at December 31, 2012, the Company's management, in coordination with CAL, the Company's major stockholder, is finalizing the recapitalization of the Group as its initial step to address this material uncertainty. The proposed recapitalization plan, which is subject to the approval of the Parent Company's stockholders, includes the following:

- (a) decrease in the authorized capital from P700,000,000 to P7,000,000 through a reduction in the par value per share from P1.00 to P0.01;
- (b) increase in authorized capital from P7,000,000 to P470,000,000;
- (c) private placement transactions covering the issuance of new shares to its existing shareholders and/or third parties involving a total subscription amount of P117,600,526; and,
- (d) waiver of the requirement to conduct rights or public offering by a majority vote of the minority stockholders present or represented during the meeting.

In the meantime, to ensure that the Group can continue to operate as a going concern, CAL will continue providing financial support to the Group until the Group's 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 as at and for the year ended December 31, 2012 (including the comparatives as at and for the years ended December 31, 2011 and 2010) were authorized for issue by the Parent Company's Board of Directors (BOD) on March 15, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

The Group presented unclassified statements of financial position as at December 31, 2012, 2011 and 2010. The details of assets and liabilities classified as to current and non-current are presented in Note 20. Also in 2012, the Group restated its 2011 financial statements, as discussed in detail in Note 16, and as such, two comparative statements of financial position have been presented.

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of New and Amended PFRS*

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

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

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

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

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

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

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

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

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

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

Currently, the Group is using the corridor approach and the unrecognized actuarial loss of the Group and the Parent Company as at December 31, 2012 amounts to P2,536,809 and P2,106,075, respectively, (see Note 14.2) which will be retrospectively recognized as loss in other comprehensive income in 2013.

(ii) Consolidation Standards

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

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Amendment), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Amendment), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

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

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

- (v) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on their financial statements.
- (vi) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

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

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

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

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

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

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

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

2.4 Financial Assets

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

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

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

(a) *Loans and Receivables*

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

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

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

(b) *AFS Financial Assets*

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

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

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

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

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

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

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

2.5 Investments in an Associate

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

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

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

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

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

2.6 Other Assets

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

2.7 Financial Liabilities

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

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

2.8 Business Combinations

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

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

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

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

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

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

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

2.9 Offsetting Financial Instruments

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

2.10 Provisions and Contingencies

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

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

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

2.11 Revenue and Expense Recognition

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

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

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

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

2.12 Leases - Group as Lessee

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

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

2.13 Foreign Currency Transactions and Translations

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

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

2.14 Segment Reporting

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

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

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

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

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

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

2.15 Impairment of Non-financial Assets

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

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

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

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

2.16 Employee Benefits

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

(a) Post-employment Benefits

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

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

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

(b) Defined Benefit Contribution Plans

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

(c) Termination Benefits

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

2.17 Income Taxes

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

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

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

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

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

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

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

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

2.19 Related Party Relationships and Transactions

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

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

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

2.20 Loss Per Share

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

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

2.21 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

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

(b) Distinction between Operating and Finance Leases

The Group has entered in a lease agreement as lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgement will result in either overstatement or understatement of assets and liabilities. As at December 31, 2012 and 2011, management determined that the lease agreement is an operating lease.

(c) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Receivables

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

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

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

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

The carrying values of the Group's AFS financial assets and the amounts of fair value changes recognized in 2012, 2011 and 2010 on those assets are disclosed in Note 8.

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

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

No deferred tax assets were recognized since the Group's management believes that it will not be able to generate sufficient taxable income within the periods in which these temporary differences can be applied (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 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

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

The determination of the Group's obligation and cost of 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 are as follows:

	Investment Banking	Investment Holding	Total	Elimination	Consolidated
2012					
SEGMENT RESULTS					
Revenues	P 649,414	P 987,784	P 1,637,198	P -	P 1,637,198
Expenses	<u>10,534,330</u>	<u>7,234,805</u>	<u>17,769,135</u>	<u>(1,870,040)</u>	<u>15,899,095</u>
Loss before tax	9,884,916	6,247,021	16,131,937	(1,870,040)	14,261,897
Tax expense	<u>14,476</u>	<u>36,846</u>	<u>51,322</u>	<u>-</u>	<u>51,322</u>
Net loss	<u>P 9,899,392</u>	<u>P 6,283,867</u>	<u>P 16,183,259</u>	<u>(P 1,870,040)</u>	<u>P 14,313,219</u>
SEGMENT ASSETS AND LIABILITIES					
Total assets	<u>P 9,443,446</u>	<u>P 114,283,206</u>	<u>P 123,726,652</u>	<u>(P 70,946,064)</u>	<u>P 52,780,588</u>
Total liabilities	<u>P 76,059,613</u>	<u>P 121,619,622</u>	<u>P 197,679,235</u>	<u>(P 8,660,242)</u>	<u>P 189,018,993</u>

	Investment Banking	Investment Holding	Total	Elimination	Consolidated
2011					
SEGMENT RESULTS					
Revenues	P 4,410,777	P 1,539,552	P 5,950,329	P -	P 5,950,329
Expenses, as restated	<u>165,130,456</u>	<u>73,392,760</u>	<u>238,523,216</u>	<u>(69,404,777)</u>	<u>169,118,439</u>
Loss before tax	160,719,679	71,853,208	232,572,887	(69,404,777)	163,168,110
Tax expense	<u>145,244</u>	<u>4,662</u>	<u>149,906</u>	<u>-</u>	<u>149,906</u>
Net loss	<u>P 160,864,923</u>	<u>P 71,857,870</u>	<u>P 232,722,793</u>	<u>(P 69,404,777)</u>	<u>P 163,318,016</u>
SEGMENT ASSETS AND LIABILITIES					
Total assets	<u>P 13,463,890</u>	<u>P 55,527,891</u>	<u>P 68,991,781</u>	<u>(P 1,870,040)</u>	<u>P 67,121,741</u>
Total liabilities	<u>P 72,440,112</u>	<u>P 124,866,261</u>	<u>P 197,306,373</u>	<u>(P 7,706,546)</u>	<u>P 189,599,827</u>
2010					
SEGMENT RESULTS					
Revenues	P 4,751,597	P 3,026,810	P 7,778,407	P -	P 7,778,407
Expenses	<u>229,148,370</u>	<u>136,385,418</u>	<u>365,533,788</u>	<u>(131,710,108)</u>	<u>233,823,680</u>
Loss before tax	224,396,773	133,358,608	357,755,381	(131,710,108)	226,045,273
Tax expense	<u>222,948</u>	<u>15,932</u>	<u>238,880</u>	<u>-</u>	<u>238,880</u>
Net loss	<u>P 224,619,721</u>	<u>P 133,374,540</u>	<u>P 357,994,261</u>	<u>(P 131,710,108)</u>	<u>P 226,284,153</u>

Currently, the Group's operation is concentrated in the Philippines; hence, it has no geographical segment. Also, no reconciling items are presented because the information provided in the financial statements are consistent with what the Group presents to the CODM, considering the nature of its operations and present financial condition.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.1 Foreign Currency Risk

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

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

As at December 31, 2012, 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 12,738,132	P -	P 12,138,732	P -
Financial liabilities	-	1,195,926	-	-
Short-term exposure	<u>P 12,738,132</u>	<u>(P 1,195,926)</u>	<u>P 12,138,732</u>	<u>P -</u>

As at December 31, 2011, 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 23,398,555	P -	P 23,086,814	P -
Financial liabilities	-	(1,272,459)	-	-
Short-term exposure	<u>P 23,398,555</u>	<u>(P 1,272,459)</u>	<u>P 23,086,814</u>	<u>P -</u>

The following table illustrates the sensitivity of profit before tax with respect to reasonably possible change in foreign currency exchange rates of 13.83% in 2012 and 16.23% in 2011 for U.S dollars against the Philippine pesos and 13.32% in 2012 and 16.98% in 2011 for Hong Kong dollars against the Philippine pesos.

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	
	2012	2011	2012	2011
PHP - USD	P 1,761,684	P 3,797,585	P 1,678,787	P 3,746,990
PHP - HKD	(159,297)	(216,064)	-	-
	<u>P 1,602,387</u>	<u>(P 3,581,521)</u>	<u>P 1,678,787</u>	<u>P 3,746,990</u>

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, 2012 and 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.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1.40% and +/- 0.90% for the year ended December 31, 2012 for savings deposits and short-term placements, respectively, and +/- 0.76% and +/- 0.77% for the year ended December 31, 2011 for savings deposits and short-term placements, respectively. 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	
	2012	2011	2012	2011
Loss before tax	P 198,285	P 375,331	P 176,441	P 21,974
Equity	158,628	300,265	141,153	17,579

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					
		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	14,163,249	P -	P 14,163,249	P 27,995,818	P -	P 27,995,818
Receivables – at gross		8,455	40,581,248	40,589,703	29,203	40,538,970	40,568,173
Due from related parties		2,599,856	-	2,599,856	2,762,344	-	2,762,344
AFS financial assets		-	31,293,500	31,293,500	-	31,823,600	31,823,600
		<u>P 16,771,560</u>	<u>P 71,874,748</u>	<u>P 88,646,308</u>	<u>P 30,787,365</u>	<u>P 72,362,570</u>	<u>P 103,149,935</u>
Financial Liabilities:							
Due to related parties	P	185,033,103	P -	P 185,033,103	P 184,795,072	P -	P 184,795,072
Accounts payable and accrued expenses (excluding tax-related liabilities)		2,047,003	-	2,047,003	2,310,110	-	2,310,110
		<u>P 187,080,106</u>	<u>P -</u>	<u>P 187,080,106</u>	<u>P 187,105,182</u>	<u>P -</u>	<u>P 187,105,182</u>
		Parent Company					
		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	12,602,959	P -	P 12,602,959	P 23,448,442	P -	P 23,448,442
Available-for sale financial assets		-	31,268,750	31,268,750	-	31,268,750	31,268,750
Loans and receivables (at gross)		6,322	40,558,946	40,565,268	21,821	40,335,736	40,357,557
		<u>P 12,609,281</u>	<u>P 71,827,696</u>	<u>P 84,436,977</u>	<u>P 23,470,263</u>	<u>P 71,604,486</u>	<u>P 95,074,749</u>
Financial Liabilities:							
Due to related parties	P	120,787,809	P -	P 120,787,809	P 124,103,052	P -	P 124,103,052
Accounts payable and accrued expenses (excluding tax-related liabilities)		370,500	-	370,500	292,322	-	292,322
		<u>P 121,158,309</u>	<u>P -</u>	<u>P 121,158,309</u>	<u>P 124,395,374</u>	<u>P -</u>	<u>P 124,395,374</u>

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

5.4 Credit Risk

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

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

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

	Notes	Consolidated		Parent Company	
		2012	2011	2012	2011
Cash and cash equivalents	7	P 14,163,249	P 27,995,818	P 12,602,959	P 23,448,442
Receivables - net	9	276,703	255,173	252,268	44,557
Due from related parties	13	2,599,856	2,762,344	1,000,000	-
Security deposits	11	181,456	181,456	-	-
		<u>P 17,221,264</u>	<u>P 31,194,791</u>	<u>P 13,855,227</u>	<u>P 23,492,999</u>

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

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

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

The Group's management considers that all the above financial assets that are not impaired for the end of each of the reporting periods under review are of good credit quality. Also, there are no unimpaired financial assets that are past due as at December 31, 2012 and 2011.

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, CAL and LCR 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.

Relevant information is shown below.

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Total liabilities	P 189,018,993	P189,599,827	P 121,619,622	P 124,866,261
Total capital deficiency	136,238,405	122,478,086	75,622,237	69,338,370

As at December 31, 2012 and 2011, the Group is not subject to any externally imposed capital requirements.

6.2 Track Record of Registration of Securities

On November 18, 1975, the SEC approved the listing at the PSE of the Parent Company's shares totalling 700,000,000. As at December 31, 2012, there are 685 holders of the listed shares equivalent to 100% of the Parent Company's total outstanding shares. Such listed shares closed at P0.47 per share as at December 31, 2012.

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

7. CASH AND CASH EQUIVALENTS

This account consists of:

		<u>Consolidated</u>		<u>Parent Company</u>	
	<u>Note</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Cash on hand		P 8,000	P 8,000	P -	P -
Cash in banks	13.5	1,066,754	2,458,376	514,464	415,300
Short-term placements		13,088,495	25,529,442	12,088,495	23,033,142
		<u>P 14,163,249</u>	<u>P 27,995,818</u>	<u>P 12,602,959</u>	<u>P 23,448,442</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods between 15 to 90 days and earn annual effective interest ranging from 3.00% to 4.00% in 2012 and 1.75% to 4.25% in 2011.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Cost:				
Quoted	P 578	P 1,083,578	P -	P -
Not quoted	<u>76,292,533</u>	<u>76,292,533</u>	<u>76,268,750</u>	<u>76,268,750</u>
	<u>76,293,111</u>	<u>77,376,111</u>	<u>76,268,750</u>	<u>76,268,750</u>
Allowance for impairment	(<u>45,000,000</u>)	(<u>45,000,000</u>)	(<u>45,000,000</u>)	(<u>45,000,000</u>)
	<u>31,293,111</u>	<u>32,376,111</u>	<u>31,268,750</u>	<u>31,268,750</u>
Unrealized fair value gain (loss)	<u>389</u>	(<u>552,511</u>)	<u>-</u>	<u>-</u>
	<u>P 31,293,500</u>	<u>P 31,823,600</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

The investment in unquoted AFS financial assets of the Group as at December 31, 2012 and 2011 pertains to the Parent Company's investment in Manila Exposition Complex, Inc. representing 18.18% ownership interests (P31,268,750) and investment in I-Mart Corporation representing 10% ownership interests (P45,000,000). The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business. The fair values of quoted AFS financial assets have been determined directly by reference to published prices in active markets, i.e., the PSE.

The movements in the unrealized fair value losses (gains) on the quoted AFS financial assets of the Group, presented as Revaluation Reserves in the statement of changes in equity (capital deficiency), follow:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P 552,511	P 583,790
Fair value gain during the year	(<u>552,900</u>)	(<u>31,279</u>)
Balance at end of year	(<u>P 389</u>)	<u>P 552,511</u>

9. RECEIVABLES

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Accounts receivable	P 40,581,248	P 40,538,970	P 40,558,946	P 40,335,736
Interest receivable	<u>8,455</u>	<u>29,203</u>	<u>6,322</u>	<u>21,821</u>
	<u>40,589,703</u>	<u>40,568,173</u>	<u>40,565,268</u>	<u>40,357,557</u>
Allowance for impairment	(<u>40,313,000</u>)	(<u>40,313,000</u>)	(<u>40,313,000</u>)	(<u>40,313,000</u>)
	<u>P 276,703</u>	<u>P 255,173</u>	<u>P 252,268</u>	<u>P 44,557</u>

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

10. INVESTMENTS IN A SUBSIDIARY AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	Consolidated		Parent Company	
		2012	2011	2012	2011
Associate					
EIB	10.31%	P 860,659,849	P 860,659,849	P -	P -
	2.45%	-	-	478,380,834	478,380,834
Subsidiary					
MAIC	64.54%	-	-	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)	(678,376,763)	(678,376,763)
		P -	P -	P -	P -

EIB is considered an associate because the Group has significant influence over EIB; certain members of the Group's BOD are also members of the BOD of EIB. No quoted market values were available for the investment in EIB since May 15, 2009 as EIB shares were suspended for trading. On July 30, 2010, the BOD of EIB approved the sale of all of EIB's assets to the Unibank, in consideration of the Unibank's assumption of all of EIB's liabilities, including its deposit liabilities (see also Note 1.2). On April 13, 2011, EIB received the approval by the Philippine Deposit Insurance Corporation (PDIC), subject to definitive agreements and certain closing conditions, which include the final approval by the BSP. As a result of EIB's sale of assets and transfer of liabilities to the Unibank, EIB will cease to operate as a commercial bank. In view of these developments, the management of the Group believes that it may no longer recover its investment in EIB because of the eminent final approval by the regulators of the sale; hence, the Group decided to provide full allowance for impairment on the investment's carrying value of P148.7 million in 2011. On April 26, 2012, the Monetary Board of the BSP decided to prohibit EIB from doing business in the Philippines and placed its assets and affairs under receivership pursuant to Section 30 of Republic Act 7653, otherwise known as the *The New Central Bank Act*. PDIC was designated as Receiver of EIB and took over EIB on April 27, 2012. Consequently, as also discussed in Note 1.2, the sale of EIB's assets did not materialize.

As at December 31, 2011, MAIC reported deficit of P360.8 million and capital deficiency of P59.0 million indicating an apparent full impairment of the investment in MAIC. However, management opted to wait for further developments, accordingly, it did not recognize further impairment loss on the investment in 2011 but in 2012, management decided to retroactively recognize full impairment loss on the carrying amount of the investment (see Notes 11 and 16). The impairment loss recognized on the carrying value of the investment in MAIC amounting to P68.3 million is presented as part of Impairment Losses in the 2011 statement of comprehensive income.

The movements in the allowance for impairment are presented below.

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P 860,659,849	P 711,913,589	P 678,376,763	P 610,090,942
Impairment losses during the year	<u>-</u>	<u>148,746,260</u>	<u>-</u>	<u>68,285,821</u>
Balance at end of year	<u>P 860,659,849</u>	<u>P 860,659,849</u>	<u>P 678,376,763</u>	<u>P 678,376,763</u>

The following are the relevant financial information of EIB for the years ended December 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Assets	P 25,965,022	P 30,310,127
Liabilities	25,695,512	28,904,688
Equity	269,510	1,405,439
Revenues	494,088	1,293,820
Net loss	1,086,650	813,427

EIB has no available financial information for the year ended December 31, 2012 as it is undergoing receivership.

11. OTHER ASSETS

This account consists of the following:

	<u>Notes</u>	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Allowance for impairment		(4,814,856)	(4,814,856)	-	-
		-	-	-	-
Creditable withholding tax		3,104,911	3,049,852	-	-
Input taxes – net	21.1(b)	873,408	766,142	873,408	766,142
Advance rentals	13.1	203,231	203,231	-	-
Security deposits	13.1	181,456	181,456	-	-
Miscellaneous		84,274	84,125	-	-
		<u>P 4,447,280</u>	<u>P 4,284,806</u>	<u>P 873,408</u>	<u>P 766,142</u>

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

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Consolidated		Parent Company	
		2012	2011	2012	2011
Accounts payable		P 1,462,021	P 1,541,750	P -	P -
Accrued expenses		584,982	635,061	370,500	292,322
Withholding tax payable		94,553	114,544	78,336	67,944
Rent payable	13.1	-	133,299	-	-
Percentage tax payable		-	6,977	-	-
Income tax payable		-	30	-	30
		<u>P 2,141,556</u>	<u>P 2,431,661</u>	<u>P 448,836</u>	<u>P 360,296</u>

13. RELATED PARTY TRANSACTIONS

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

13.1 Summary of Related Party Transactions

A summary of the Group's related party transactions as of December 31, 2012 and 2011 are as follows:

	Notes	Amounts of Transactions			Outstanding Balance	
		2012	2011	2010	2012	2011
Parent of major stockholder –						
Cash advances	13.4	P 114,047,252	P -	P -	P 64,245,294	P 178,292,546
Associates –						
Cash in banks	13.5	(358,284)	206,951	62,291	-	361,992
Related parties under common ownership and with interlocking directors and officers:						
Lease of office space	13.2	1,531,384	1,531,384	1,600,047	-	133,299
Due from related parties	13.3	162,488	2,075,775	5,429	2,599,856	2,762,344
Due to related parties	13.4	114,257,764	-	2,281,632	120,787,80	6,502,526
Key management personnel –						
Salaries and other benefits	13.6	6,188,117	5,151,400	4,628,900	-	-

A summary of the Parent Company's related party transactions as of December 31, 2012 and 2011 are as follows:

	Notes	Amounts of Transactions			Outstanding Balance	
		2012	2011	2010	2012	2011
Parent of major stockholder –						
Cash advances	13.4	P 117,600,527	P -	P -	P -	P 117,600,527
Subsidiaries –						
Due from related parties	13.3	1,000,000	-	-	1,000,000	-
Related parties under common ownership and with interlocking directors and officers:						
Lease of office space	13.2	312,000	312,000	312,000	-	-
Due to related parties	13.4	114,285,284	-	1,388,864	120,787,809	6,502,526
Key management personnel –						
Salaries and other benefits	13.6	3,620,000	2,580,000	2,057,000	-	-

13.2 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party under common ownership, 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 2012, P1,531,384 in 2011, P1,600,047 in 2010 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, which shall be applied against the last two months of the lease term, totalling P384,687 as at December 31, 2012 and 2011 are included as part of Other Assets in the statements of financial position (see Note 11). The Group's outstanding payable arising from these transactions amounts to nil and P133,299 as at December 31, 2012 and 2011, respectively, and is presented as Rent Payable under the Accounts Payable and Accrued Expenses in the consolidated statements of financial position.

13.3 Due from Related Parties

This account consists of the following:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Solid Payback Holdings, Inc.	P 475,606	P 452,454	P -	P -
Bountiful Bancresources Holdings, Inc.	452,656	429,504	-	-
Cardinal Bancresources, Inc.	331,526	307,151	-	-
Lead Bancfund Corp.	350,069	326,916	-	-
Apex Bancrights Corp.	349,018	325,866	-	-
Goldwin Bancshares, Inc.	331,344	308,192	-	-
CTC Entrepreneurs Corp.	276,600	278,803	-	-
Keytrend Technologies Phils.	33,037	-	-	-
Lippo Securities, Inc. (LSI)	-	333,458	-	-
MAIC	-	-	1,000,000	-
	<u>P 2,599,856</u>	<u>P 2,762,344</u>	<u>P 1,000,000</u>	<u>P -</u>

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

The movements in this account follow:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Balance at beginning of year	P 2,762,344	P 686,569	P -	P 49,733,989
Additions	170,970	2,428,886	1,000,000	-
Collections	(333,458)	(353,111)	-	(49,733,989)
Balance at end of year	<u>P 2,599,856</u>	<u>P 2,762,344</u>	<u>P 1,000,000</u>	<u>P -</u>

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

13.4 Due to Related Parties

This account consists of the following:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Lippo China Resources Limited (LCR)	P 64,245,294	P 178,292,546	P -	P 117,600,526
Classic Tycoon Investment, Ltd. (CTIL)	29,884,700	-	29,884,700	-
Fair Navigator, Ltd. (FNL)	29,884,700	-	29,884,700	-
CAL	57,831,126	-	57,831,126	-
LSI	3,159,463	2,950,000	3,159,463	2,950,000
CPIL	27,820	-	27,820	-
Bountiful Bancresources Holdings, Inc.	-	3,552,526	-	3,552,526
	<u>P 185,033,103</u>	<u>P 184,795,072</u>	<u>P 120,787,809</u>	<u>P 124,103,052</u>

In 2012, LCR assigned its receivable amounting totalling P117,600,526 from the Parent Company to CTIL, FNL and CAL.

The movements in this account follow:

	<u>Consolidated</u>		<u>Parent Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P 184,795,072	P 183,364,277	P 124,103,052	P 148,675,260
Additions	116,838,557	25,674,645	117,837,809	17,875
Collections	(116,600,526)	(24,243,850)	(121,153,052)	(24,590,083)
Balance at end of year	<u>P 185,033,103</u>	<u>P 184,795,072</u>	<u>P 120,787,809</u>	<u>P 124,103,052</u>

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

13.5 Cash in Bank

The Group has bank deposits with EIB, which is under receivership (see Note 10), amounting to P361,992 as at December 31, 2011 (nil as at December 31, 2012), and nil for the Parent Company in both years (see Note 7). The cash in bank was subsequently claimed from the PDIC in 2012.

13.6 Key Management and Personnel Compensation

The compensation and benefits provided to key management personnel, which generally consist of short-term employee benefits, amounted to P6,188,117 in 2012, P5,151,400 in 2011 and P4,628,900 in 2010 for the Group and P3,620,000 in 2012, P2,580,000 in 2011 and P2,057,500 in 2010 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		
	2012	2011	2010	2012	2011	2010
Short-term employee benefits	P 7,548,170	P 6,462,717	P 5,920,913	P 3,878,280	P 2,819,634	P 2,289,665
Post-employment defined benefit	610,730	624,111	535,481	276,272	241,673	182,889
	<u>P 8,158,900</u>	<u>P 7,086,828</u>	<u>P 6,456,394</u>	<u>P 4,154,552</u>	<u>P 3,061,307</u>	<u>P 2,472,554</u>

14.2 Post-employment Defined Benefit

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

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Present value of obligation	P 7,307,280	P 5,417,935	P 3,326,719	P 1,894,493
Fair value of plan assets	(2,926,137)	(1,645,529)	(837,667)	(505,980)
Unfunded liability	4,381,143	3,772,406	2,489,052	1,388,513
Unrecognized actuarial loss	(2,536,809)	(1,399,312)	(2,106,075)	(985,600)
	<u>P 1,844,334</u>	<u>P 2,373,094</u>	<u>P 382,977</u>	<u>P 402,913</u>

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Balance at beginning of year	P 5,417,935	P 4,369,532	P 1,894,493	P 1,241,484
Current service cost	302,313	353,495	156,621	100,436
Interest cost	358,705	250,330	125,415	104,638
Actuarial losses	1,228,327	444,578	1,150,190	447,935
Balance at end of year	<u>P 7,307,280</u>	<u>P 5,417,935</u>	<u>P 3,326,719</u>	<u>P 1,894,493</u>

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Balance at beginning of year	P 1,645,529	P 854,508	P 505,980	P 248,590
Contributions	1,139,490	736,867	296,208	242,069
Expected return on plan assets	65,821	34,181	20,239	9,944
Actuarial gains	75,297	19,973	15,240	5,377
Balance at end of year	<u>P 2,926,137</u>	<u>P 1,645,529</u>	<u>P 837,667</u>	<u>P 505,980</u>

As at December 31, 2012 and 2011, the plan assets consist of the following:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Investment in government securities	P 1,510,386	P 749,970	P 464,148	P 211,362
Deposit in banks	1,403,786	889,925	369,079	293,253
Interest receivables	15,124	7,002	5,478	1,786
Accrued trust fees payable	(3,159)	(1,368)	(1,038)	(421)
	<u>P 2,926,137</u>	<u>P 1,645,529</u>	<u>P 837,667</u>	<u>P 505,980</u>

Actual returns on plan assets were P141,118 in 2012 and P54,152 in 2011 for the Group and P35,479 in 2012 and P15,320 in 2011 for the Parent Company. The retirement fund has no investments in the Parent Company's shares of stock which are listed for trading at the PSE (see also Note 1.1). It has no transactions with the Group in both years presented.

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

	Consolidated			Parent Company		
	2012	2011	2010	2012	2011	2010
Current service cost	P 302,313	P 353,495	P 333,929	P 156,621	P 100,436	P 81,014
Interest cost	358,705	250,330	203,754	125,415	104,638	85,803
Expected return on plan assets	(65,821)	(34,181)	(31,197)	(20,239)	(9,944)	(9,156)
Net actuarial loss recognized during the plan year	15,533	54,467	28,995	14,475	46,543	25,228
	<u>P 610,730</u>	<u>P 624,111</u>	<u>P 535,481</u>	<u>P 276,272</u>	<u>P 241,673</u>	<u>P 182,889</u>

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

	Consolidated			Parent Company		
	2012	2011	2010	2012	2011	2010
Balance at beginning of year	P 2,373,094	P 2,485,850	P 1,950,369	P 402,913	P 403,309	P 220,420
Expense recognized	610,730	624,111	535,481	276,272	241,673	182,889
Contributions paid	(1,139,490)	(736,867)	-	(296,208)	(242,069)	-
Balance at end of year	<u>P 1,844,334</u>	<u>P 2,373,094</u>	<u>P 2,485,850</u>	<u>P 382,977</u>	<u>P 402,913</u>	<u>P 403,309</u>

The historical information related to the present value of the post-employment benefit obligation, fair value of plan assets and deficit in the plan are presented below.

	Consolidated				
	2012	2011	2010	2009	2008
Present value of the obligation	P 7,307,280	P 5,417,935	P 4,369,532	P 3,507,650	P 2,824,097
Fair value of the plan assets	2,926,137	1,645,529	854,508	779,919	727,863
Deficit in the plan	<u>P 4,381,143</u>	<u>P 3,772,406</u>	<u>P 3,515,024</u>	<u>P 2,727,731</u>	<u>P 2,096,234</u>
	Parent Company				
	2012	2011	2010	2009	2008
Present value of the obligation	P 3,326,719	P 1,894,493	P 1,241,484	P 850,983	P 721,487
Fair value of the plan assets	837,667	505,980	248,590	228,905	212,336
Deficit in the plan	<u>P 2,489,052</u>	<u>P 1,388,513</u>	<u>P 992,894</u>	<u>P 622,078</u>	<u>P 509,151</u>

The experience adjustments arising on plan assets and liabilities are not material to the financial statements.

The Group and the Parent Company expects to pay P874,045 and P364,732, respectively, in contributions to the retirement benefit plans in 2013.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Discount rates	5.91%	6.62%	8.09%
Expected rate of return on plan assets	4.00%	4.00%	4.00%
Expected rate of salary increases	5.00%	5.00%	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 23 for both males and females.

15. TAXES

Tax expense reported in profit or loss for the years ended December 31, 2012, 2011 and 2010 follows:

	<u>Consolidated</u>			<u>Parent Company</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Final tax at 20% and 7.5%	P 51,322	P 147,460	P 223,560	P 36,846	P 4,632	P 612
Minimum corporate income tax (MCIT) at 2%	<u>-</u>	<u>2,446</u>	<u>15,320</u>	<u>-</u>	<u>30</u>	<u>15,320</u>
	<u>P 51,322</u>	<u>P 149,906</u>	<u>P 238,880</u>	<u>P 36,846</u>	<u>P 4,662</u>	<u>P 15,932</u>

The reconciliation of tax on pretax loss for 2012, 2011 and 2010 computed at the applicable statutory tax rates to tax expense reported in the profit or loss section of the statements of comprehensive income is presented below.

	<u>Consolidated</u>			<u>Parent Company</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tax on pretax loss at 30%	(P 4,278,569)	(P 48,950,433)	(P 67,813,582)	(P 1,874,106)	(P 21,555,962)	(P 39,998,593)
Adjustment for income subjected to lower tax rates	(41,008)	(109,390)	(153,819)	(34,490)	(4,275)	(306)
Tax effects of:						
Unrecognized deferred tax asset (DTA) on temporary differences	4,169,850	48,939,325	68,091,251	2,034,650	21,872,069	40,484,998
Nondeductible expenses	426,049	720,374	774,710	135,790	142,800	189,513
Nontaxable income	(225,000)	(450,000)	(675,000)	(225,000)	(450,000)	(675,000)
Unrecognized DTA on MCIT	<u>-</u>	<u>30</u>	<u>15,320</u>	<u>-</u>	<u>30</u>	<u>15,320</u>
Tax expense	<u>P 51,322</u>	<u>P 149,906</u>	<u>P 238,880</u>	<u>P 36,846</u>	<u>P 4,662</u>	<u>P 15,932</u>

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

Consolidated				
	2012		2011	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 950,787,705	P 285,236,312	P 950,787,705	P 285,236,312
Net operating loss carryover (NOLCO)	31,791,562	9,537,469	41,610,246	12,483,074
Retirement benefit obligation	1,844,334	553,300	2,373,094	711,928
MCIT	17,766	17,766	120,929	120,929
Unrealized foreign currency gains	(76,533)	(22,960)	(136,894)	(41,068)
	<u>P 984,364,834</u>	<u>P 295,321,887</u>	<u>P 994,755,080</u>	<u>P 298,511,178</u>
Parent Company				
	2012		2011	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 763,689,763	P 229,106,929	P 763,689,763	P 229,106,929
NOLCO	13,683,904	4,105,171	11,227,093	3,368,128
Accrued retirement	382,977	114,931	402,913	120,874
MCIT	15,350	15,350	15,350	15,350
Unrealized foreign currency Gains	-	-	(8,360)	(2,508)
	<u>P 777,771,994</u>	<u>P 233,342,381</u>	<u>P 775,326,759</u>	<u>P 232,608,773</u>

The breakdown of the Group's NOLCO as at December 31, 2012, 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					
Year		Original Amount	Expired Balance	Remaining Balance	Valid Until
2012	P	13,523,547	P -	P 13,523,547	2015
2011		10,420,193	-	10,420,193	2014
2010		7,847,822	-	7,847,822	2013
2009		<u>23,342,231</u>	<u>23,342,231</u>	<u>-</u>	2012
		<u>P 55,133,793</u>	<u>P 23,342,231</u>	<u>P 31,791,562</u>	
Parent Company					
Year		Original Amount	Expired Balance	Remaining Balance	Valid Until
2012	P	5,995,697	P -	P 5,995,697	2015
2011		4,632,872	-	4,632,872	2014
2010		3,055,335	-	3,055,335	2013
2009		<u>3,538,886</u>	<u>3,538,886</u>	<u>-</u>	2012
		<u>P 17,222,790</u>	<u>P 3,538,886</u>	<u>P 13,683,904</u>	

No NOLCO was applied against taxable income by the Group and the Parent Company in 2012, 2011 and 2010.

The Group is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. In 2012, no MCIT and RCIT was reported since the Group does not have taxable revenues and other income during the year. In 2011 and 2010, the Group reported MCIT of P2,446 and P15,320, respectively, while the Parent Company reported MCIT of P30 and P15,320, respectively, as the MCIT was higher than RCIT during those years.

Details of the Group's MCIT as at December 31, 2012, which can be applied against future RCIT within three years from the year MCIT was incurred, is shown below.

Consolidated				
Year	Original Amount	Expired Balance	Remaining Balance	Valid Until
2011	P 2,446	P -	P 2,446	2014
2010	15,320	-	15,320	2013
2009	<u>103,163</u>	<u>103,163</u>	<u>-</u>	2012
	<u>P 120,929</u>	<u>P 103,163</u>	<u>P 17,766</u>	
Parent Company				
Year	Original Amount	Expired Balance	Remaining Balance	Valid Until
2011	P 30	P -	P 30	2014
2010	<u>15,320</u>	<u>-</u>	<u>15,320</u>	2013
	<u>P 15,350</u>	<u>P -</u>	<u>P 15,350</u>	

No MCIT was applied against RCIT by each entity in the Group in 2012, 2011 and 2010.

In 2012, 2011 and 2010, each entity in the Group opted to claim itemized deductions in computing for its income tax due.

16. PRIOR PERIOD ADJUSTMENTS

In 2011, despite the apparent impairment of the entire investment of the Parent Company in MAIC, management opted not to provide full allowance for impairment on the carrying value of the investment amounting to P68.3 million (see Note 10). In the same manner, the Group did not also recognize impairment loss on the goodwill related to the acquisition of MAIC (see Note 11). In 2012, management decided to correct the overstatement in the carrying value of the Parent Company's investment in MAIC and the Group's goodwill brought about by the nonrecognition of the required allowance for impairment on the assets; accordingly, it retrospectively recognized the impairment loss on the carrying value of the investment in MAIC and goodwill. The balance of the Deficit account as at January 1, 2012 was restated to reflect the retrospective effects of changes arising from the recognition of full impairment loss on the carrying value of the investment in MAIC in the Parent Company's separate financial statements and on goodwill in the consolidated financial statements. The net adjustment on the opening balance of the Deficit as at January 1, 2012 as presented in the consolidated financial statements and separate financial statements of the Parent Company amounted to P4.8 million and P68.3 million, respectively.

The restatements of certain line items in the financial statements as at January 1, 2012 are summarized below.

	<u>Notes</u>	<u>As Previously Reported</u>	<u>Prior Period Adjustments</u>	<u>As Restated</u>
Consolidated				
Change in other assets	11	P 9,099,662	(P 4,814,856)	P 4,284,806
Parent Company				
Change in investment in a subsidiary and an associate	5	68,285,821	(68,285,821)	-

The effect of the restatement in the 2011 statement of income is summarized below.

	<u>Notes</u>	<u>As Previously Reported</u>	<u>Prior period Adjustments</u>	<u>As Restated</u>
Consolidated				
Expenses	10	(P 148,746,260)	(P 4,814,856)	(P153,561,116)
Loss per share		0.15	-	0.15
Parent Company				
Expenses	10	-	(68,285,821)	(68,285,821)
Loss per share		0.01	0.09	0.10

17. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the years ended December 31, 2012, 2011 and 2010 is computed as follows:

	<u>Consolidated</u>			<u>Parent Company</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net loss attributable to the shareholders of Parent Company	P 11,466,332	P 108,385,650	P 146,632,372	P 6,283,867	P 71,857,870	P 133,344,574
Divided by the weighted average number of outstanding shares	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>
Basic and diluted loss per share	<u>P 0.02</u>	<u>P 0.15</u>	<u>P 0.21</u>	<u>P 0.01</u>	<u>P 0.10</u>	<u>P 0.19</u>

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

18. COMMITMENTS AND CONTINGENCIES

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

19. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

19.1 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.

Notes	Consolidated			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and receivables:				
Cash and cash equivalents	7	P 14,163,249	P 14,163,249	P 27,995,818
Receivables	9	276,703	276,703	255,173
Due from related parties	13	2,599,856	2,599,856	2,762,344
Security deposits	11	181,456	181,456	181,456
AFS financial assets	8	31,293,500	31,293,500	31,823,600
		P 48,514,764	P 48,514,764	P 63,018,391
Financial liabilities				
Accounts payable and accrued expenses (excluding tax related liabilities)	12	P 2,047,003	P 2,047,003	P 2,310,110
Due to related parties	13	185,033,103	185,033,103	184,795,072
		P 187,080,106	P 187,080,106	P 187,105,182
Parent Company				
Notes	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans and receivables:				
Cash and cash equivalents	7	P 12,602,959	P 12,602,959	P 23,448,442
Receivables	9	252,268	252,268	44,557
Due from related parties	13	1,000,000	1,000,000	-
AFS financial assets	8	31,268,750	31,268,750	31,268,750
		P 45,123,977	P 45,123,977	P 54,761,749
Financial liabilities				
Accounts payable and accrued expenses (excluding tax related liabilities)	12	P 370,500	P 370,500	P 292,322
Due to related parties	13	120,787,809	120,787,809	124,103,052
		P 121,158,309	P 121,158,309	P 124,395,374

19.2 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:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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,
- 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 at 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 PSE with quoted fair values of P967 and P531,067 as at December 31, 2012 and 2011, respectively, which are categorized as Level 1 (see Note 8). AFS financial assets held by the Parent Company amounting to P31,292,533 as at December 31, 2012 and 2011 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.

20. CLASSIFIED STATEMENTS OF FINANCIAL POSITION

Details of assets and liabilities as to current and non-current are presented below:

	<u>Notes</u>	<u>Consolidated</u>		<u>Parent Company</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	7	P 14,163,249	P 27,995,818	P 12,602,959	P 23,448,442
Receivables – net	9	276,703	255,173	252,268	44,557
Due from related parties	13	<u>2,599,856</u>	<u>2,762,344</u>	<u>1,000,000</u>	<u>-</u>
Total Current Assets		<u>17,039,808</u>	<u>31,013,335</u>	<u>13,855,227</u>	<u>23,492,999</u>
NON-CURRENT ASSETS					
Available-for-sale financial assets	8	31,293,500	31,823,600	31,268,750	31,268,750
Investments in subsidiaries and an associate – net	10	-	-	-	-
Other non-current assets – net	11	<u>4,447,280</u>	<u>4,284,806</u>	<u>873,408</u>	<u>766,142</u>
Total Non-Current Assets		<u>35,740,780</u>	<u>36,108,406</u>	<u>32,142,158</u>	<u>32,034,892</u>
TOTAL ASSETS		<u>P 52,780,588</u>	<u>P 67,121,741</u>	<u>P 45,997,385</u>	<u>P 55,527,891</u>
<u>LIABILITIES</u>					
CURRENT LIABILITIES					
Accounts payable and other liabilities		P 2,141,556	P 2,431,661	P 448,836	P 360,296
Due to related parties	13	<u>185,033,103</u>	<u>184,795,072</u>	<u>120,787,809</u>	<u>124,103,052</u>
Total Current Liabilities		<u>187,174,659</u>	<u>187,226,733</u>	<u>121,236,645</u>	<u>124,463,348</u>
NON-CURRENT LIABILITIES					
Retirement benefit obligation	14	<u>1,844,334</u>	<u>2,373,094</u>	<u>382,977</u>	<u>402,913</u>
TOTAL LIABILITIES		<u>P 189,018,993</u>	<u>P 189,599,827</u>	<u>P 121,619,622</u>	<u>P 124,866,261</u>

21. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (APPLICABLE TO THE PARENT COMPANY ONLY)

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.

21.1 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 are as follows:

(a) Output VAT

The Parent Company has no output VAT as at December 31, 2012.

(b) Input VAT

The movements of input VAT in 2012 are summarized below.

Balance at beginning of year	P	766,142
Current year's domestic purchases of services lodged under administrative expenses		<u>107,266</u>
Balance at end of year	<u>P</u>	<u>873,408</u>

The balance of Input VAT is presented as part of Miscellaneous Asset under its Other Assets account in the 2012 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 2012.

(d) Excise Tax

The Parent Company did not have excise tax in 2012 since it did not have any transactions which are subject to excise tax.

(e) Documentary Stamp Tax

The Parent Company paid documentary stamp tax (DST) amounting to P4,000 in 2012 and is presented under taxes and licenses [see Note 21.1(f)].

(f) *Taxes and Licenses*

Details taxes and licenses of the Parent Company in 2012 are shown below.

Licenses and permit fees	P	23,155
DST		4,000
Community tax		1,708
Barangay clearance		1,100
Registration		<u>500</u>
	P	<u>30,463</u>

(g) *Withholding Taxes*

The total withholding taxes of the Parent Company for the year ended December 31, 2012 are shown below.

Compensation and benefits	P	1,036,246
Expanded		80,100
Final withholding tax		<u>11,250</u>
	P	<u>1,127,596</u>

(h) *Deficiency Tax Assessments and Tax Cases*

As at December 31, 2012, 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 taxable years.

21.2 Requirements Under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information 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 2012 statement of comprehensive income.

(a) *Taxable Revenues*

For the year ended December 31, 2012, 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, 2012.

(c) *Taxable Non-operating and Other Income*

The Parent Company has no taxable non-operating and other income for the year ended December 31, 2012.

(d) *Itemized Deductions*

Details itemized deductions under regular tax rate regime for the year ended December 31, 2012 are as follow:

Salaries and employee benefits	P	4,174,488
Professional fees		599,355
Occupancy		312,000
Directors' fees		225,000
Transportation		177,142
Office supplies		32,499
Taxes and licenses		30,463
Insurance		26,483
Repairs and maintenance		13,552
Representation		9,878
Miscellaneous		<u>394,837</u>
	P	<u>5,995,697</u>



Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors on Supplementary Schedules Filed Separately from the Basic Financial Statements

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The Board of Directors and Stockholders

Medco Holdings, Inc.

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Medco Holdings, Inc. and subsidiaries for the year ended December 31, 2012, on which we have rendered our report dated March 15, 2013. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, 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 the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Christopher M. Ferareza**
Partner

CPA Reg. No. 0097462

TIN 184-595-975

PTR No. 3671441, January 2, 2013, Makati City

SEC Group A Accreditation

Partner - No. 1185-A (until Jan. 18, 2013)

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, 2015)

March 15, 2013

Certified Public Accountants

P&A is a member firm within Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002

SEC Group A Accreditation No. 0002-FR-3

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2012
(Amounts in Philippine Pesos)

<i>Name of issuing entity and association of each issue (1)</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at end of reporting period</i>	<i>Income received and accrued</i>
Anglo Philippines Holdings Corp.	504	P 967	P 967	P -
Philippine Central Depository, Inc.	228	22,800	22,800	-
Reynold, Inc.	847	983	983	-
Manila Exposition Complex, Inc.	300,000	31,268,750	31,268,750	750,000
Total AFS Financial Assets		P 31,293,500	P 31,293,500	P 750,000

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2012

(Amounts in Philippine Pesos)

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	
<i>Amounts Due from Related Parties:</i>	P 2,762,344	P 170,970	(333,458)	P -	P 2,599,856	P -	P 2,599,856
<i>Advances to Officers and Employees:</i> (under the "Receivables account")	<u>53,472</u>	-	(31,169)	-	<u>22,303</u>	-	<u>22,303</u>
<i>Grand Total</i>	<u>P 2,815,816</u>	<u>P 170,970</u>	<u>(P 364,627)</u>	<u>P -</u>	<u>P 2,622,159</u>	<u>P -</u>	<u>P 2,622,159</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Amounts in Philippine Pesos)

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	
Due from Medco Asia Investment Corporation	-	P 1,000,000	-	P -	P 1,000,000	P -	P 1,000,000

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2012
(Amounts in Philippine Pesos)

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	<i>Ending balance</i>
Creditable withholding tax	P 3,049,852	P 55,059	P -	P -	P -	P 3,104,911
Input taxes	766,142	107,266	-	-	-	873,408
Advance rentals	203,231	-	-	-	-	203,231
Security deposit	181,456	-	-	-	-	181,456
Miscellaneous	84,125	149	-	-	-	84,274
	P 4,284,806	P 162,474	-	-	P -	P 4,447,280

Note: The Group has no intangible assets as of December 31, 2012.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2012
(Amounts in Philippine Pesos)

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>
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- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2012

(Amounts in Philippine Pesos)

<i>Name of related party</i>	<i>Balance at beginning of period</i>	<i>Balance at end of period</i>
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- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2012
(Amounts in Philippine Pesos)

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount of guaranteed and outstanding</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee</i>
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- nothing to report -

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2012

<i>Title of Issue</i>	<i>Number of Shares Authorized</i>	<i>Number of Shares Issued and Outstanding under Related Balance Sheet Caption</i>	<i>Number of Shares. Reserved for Options, Warrants, Conversions and Other Rights</i>	<i>Number or Shares Held By</i>		
				<i>Related Parties (Parent, Affiliates)</i>	<i>Directors, Officers and Employees</i>	<i>Others</i>
Common Shares	700,000,000	-	-	P 322,314,901	-	P 377,685,099

MEDCO HOLDINGS, INC.
31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City

Reconciliation of Deficit Available for Dividend Declaration
For the Year Ended December 31, 2012

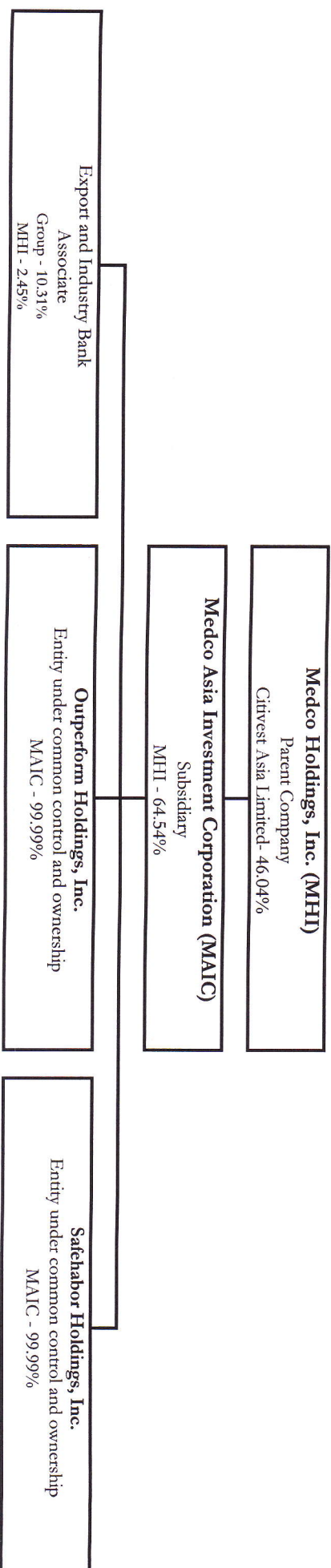
DEFICIT AT BEGINNING OF YEAR

As previously stated	P 726,551,461
Effect of prior period adjustment	<u>68,285,821</u>
As restated	794,837,282

Net Loss during the Year	<u>6,283,867</u>
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DEFICIT AT END OF YEAR	<u>P 801,121,149</u>
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MEDCO HOLDINGS, INC. AND SUBSIDIARIES
Map Showing the Relationship Between and Among Related Entities
December 31, 2012



MEDCO HOLDINGS, INC.

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2012

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans* (effective January 1, 2013)			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective January 1, 2013)			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective January 1, 2015)			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (effective January 1, 2015)			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective January 1, 2015)			✓
PFRS 10	Consolidated Financial Statements* (effective January 1, 2013)			✓
	Amendments to PFRS 10: Transition Guidance* (effective January 1, 2013)			✓
	Amendments to PFRS 10: Investment Entities* (effective January 1, 2013)			✓
PFRS 11	Joint Arrangements* (effective January 1, 2013)			✓
	Amendments to PFRS 11: Transition Guidance* (effective January 1, 2013)			✓
PFRS 12	Disclosure of Interests in Other Entities* (effective January 1, 2013)			✓
	Amendments to PFRS 12: Transition Guidance* (effective January 1, 2013)			✓
	Amendments to PFRS 12: Investment Entities* (effective January 1, 2013)			✓
PFRS 13	Fair Value Measurement* (effective January 1, 2013)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Accounting Standards (PAS)</i>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Revised)	Employee Benefits* (effective January 1, 2013)			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	✓		
PAS 27 (Amended)	Separate Financial Statements* (effective January 1, 2013)			✓
	Amendments to PAS 27 (Amended): Investment Entities* (effective January 1, 2013)			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures* (effective January 1, 2013)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* (effective January 1, 2014)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
<i>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</i>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine* (effective January 1, 2013)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**			✓
SIC-32	Intangible Assets - Web Site Costs**			✓

* These standards will be effective for periods subsequent to 2012 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.