



108132013002988



## SECURITIES AND EXCHANGE COMMISSION

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### Company Information

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**SEC Registration No.** AS92000589  
**Company Name** GREENERGY HOLDINGS INCORPORATED  
**Industry Classification** Financial Holding Company Activities  
**Company Type** Stock Corporation

### Document Information

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COVER SHEET

AS09200589  
SEC Registration Number

GREENERGY HOLDINGS INCORPORATED  
AND ITS SUBSIDIARIES  
  
  
  
(Company's Full Name)

54 NATIONAL ROAD, DAMPOL II - A  
PULILAN, BULACAN  
  
  
  
(Business Address: No. Street City/Town/Province)

Atty. Martin Subido  
(Contact Person)

893-2687 (02)  
(Company Telephone Number)

12 31  
Month Day  
(Fiscal Year)

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Month Day  
(Annual Meeting)

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Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU \_\_\_\_\_

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Cashier \_\_\_\_\_

SEC FORM 17 - Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(B) THEREUNDER

1. For the quarterly period ended : June 30, 2013  
2. SEC Identification Number : ASO92-00589  
3. BIR Tax Identification Number : 001-817-292  
4. Exact name of issuer as specified in its charter : GREENERGY HOLDINGS  
INCORPORATED  
5. Province, country or other jurisdiction on : Bulacan, Philippines  
6. Industry Classification code : (SEC Use Only)  
7. Address of Principal office : #54 National Road, Dampol II-A  
Pulilan Bulacan

Postal Code :

8. Issuer's telephone no. area code : (02)579-4490  
9. There have been changes to our name and address since last report

10. Securities registered pursuant to Section 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares Php 0.01par	<u>172,952,856,500/P12,352,581</u> (As of June 30, 2013)

11. Are any or all of these securities listed on the Philippine Stock Exchange

Yes [ X ] No [ ]

45,243,478,240 out of the 172,952,856,500 issued and outstanding securities are listed on the Philippine Stock Exchange.

12. Check whether the registrant:

a. Has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 41 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 report.

Yes [ X ] No [ ]

b. Has been subject to such filing requirement for the past 90 days

Yes [ X ] No [ ]

**GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES**  
*(Formerly MUSX Corporation and its Subsidiaries)*

**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
**(WITH COMPARATIVE FIGURES FOR DECEMBER 31, 2012)**

**GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES**  
(Formerly MUSX Corporation and its Subsidiaries)

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
JUNE 30, 2013, 2012 AND DECEMBER 31, 2012

		In Philippine Peso (Functional and Presentation Currency)		
	Note	June 30, 2013	June 30, 2012	December 31, 2012
<b>ASSETS</b>				
<b>Current assets</b>				
Cash on hand and in banks	7	265,704,100	670,429	472,623,537
Trade and other receivables, net	8	25,219,089	362,234	1,081,429
Advances to related party	24	269,129,862	19,182,907	268,990,733
Advances for future stock subscription	10		-	200,000,000
Prepayments and other current assets, net	11	7,910,639	401,836	3,645,216
<b>Total current assets</b>		<b>567,963,690</b>	<b>20,617,406</b>	<b>946,340,915</b>
<b>Noncurrent assets</b>				
Loans receivable	13	-	-	-
Advances to projects	14	101,733,533	20,728,692	7,769,466
Available-for-sale (AFS) investments, net	9	73,064,653	60,773,207	75,436,653
Investment in associate, net	15	60,724,640	58,927,607	85,724,640
Property and equipment, net	16	620,999,133	235,049,233	236,513,475
Intangible assets	-	1,716,034	-	179,006
Deferred tax assets	-	320,375	113,231	80,205
<b>Total noncurrent assets</b>		<b>858,558,368</b>	<b>375,591,970</b>	<b>405,703,445</b>
<b>Total assets</b>		<b>1,426,522,058</b>	<b>396,209,376</b>	<b>1,352,044,360</b>
<b>LIABILITY AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables	17	3,954,034	1,460,580	3,173,631
Advances from related parties	24	7,787,346	4,920,985.00	7,705,104
Interest-bearing loans and borrowings	18	593,733	-	952,533
Income tax payable		17,468	-	17,468
<b>Total current liabilities</b>		<b>12,352,581</b>	<b>6,381,565</b>	<b>11,848,736</b>
<b>Noncurrent liability</b>				
Interest-bearing loans and borrowings	-	-	-	-
<b>Total liabilities</b>		<b>12,352,581</b>	<b>6,381,565</b>	<b>11,848,736</b>
<b>Equity</b>				
<b>Equity attributable to the owners of the Parent Company</b>				
Share capital	19	1,269,278,565	584,510,005	1,100,278,565
Share premium	20	268,090,531	60,321,972	268,090,531
Other Reserves	9	(59,726,231)	28,683,061	(19,765,525)
Deficit		(324,057,627)	(283,622,356)	(302,795,513)
		<b>1,153,585,238</b>	<b>389,892,682</b>	<b>1,045,808,058</b>
Non-controlling Interest	27	260,584,239	(64,871)	294,387,566
<b>Total equity</b>		<b>1,414,169,477</b>	<b>389,827,811</b>	<b>1,340,195,624</b>
<b>Total liabilities and equity</b>		<b>1,426,522,058</b>	<b>396,209,376</b>	<b>1,352,044,360</b>

*(The accompanying notes are integral part of these financial statements)*

**GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES**  
*(Formerly MUSX Corporation and its Subsidiaries)*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the six months ended June 30, 2013, 2012, 2011 and for the Year Ended December 31, 2012

		In Philippine Peso (Functional and Presentation Currency)			
		2013	2012	2011	December 31, 2012
	Note				
NET SALES				26,079,242	-
COST OF GOODS SOLD		-	-	8,305,910	-
GROSS PROFIT		-	-	17,773,332	-
Share in income of associate					5,488,876
OPERATING EXPENSES	22	28,567,649	6,878,089	12,505,664	20,257,309
OPERATING PROFIT/(LOSS)		(28,567,649)	(6,878,089)	5,267,668	(14,768,433)
OTHER INCOME/(EXPENSES)					
Finance costs		-	513	(162,933)	
Finance income	21	1,307,568	-	7,277	2,336,826
Other income-Royalty	21	94,852	-	-	
Others- net	21,23	-	-	(5,787,307)	(15,460,379)
		1,402,420	513	(5,942,963)	(13,323,553)
INCOME/(LOSS) BEFORE TAX		(27,165,229)	(6,877,576)	(675,295)	(28,091,986)
Provision for income tax		-	-	3,958,188	8,033
NET INCOME/(LOSS)		(27,165,229)	(6,877,576)	(4,633,413)	(28,083,953)
Other comprehensive					
income (loss)					
Net change in fair value of AFS investment	23	(39,960,706)	-		(8,705,880)
Net change in fair value of AFS investment transferred to profit and loss		-	-		(10,414,854)
Net change in foreign currency difference		-	-		-
Total comprehensive income (loss)		(67,125,935)	(6,877,576)	(4,633,413)	(47,204,687)
Earnings (loss) per share	26	(0.0001762)	(0.0000799)	(0.0000886)	(0.0002953)
		(₱1.0000000)	(₱1.0000000)	(₱1.0000000)	(₱1.0000000)

(The accompanying notes are integral part of these financial statements)



**GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES**  
*(Formerly MUSX Corporation and its Subsidiaries)*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the three months ended June 30, 2013, 2012 and 2011**

		In Philippine Peso (Functional and Presentation Currency)		
	Note	2013	2012	2011
NET SALES				11,508,297
COST OF GOODS SOLD		-	-	3,198,434
GROSS PROFIT		-	-	8,309,863
Share in income of as associate				
OPERATING EXPENSES	22	15,195,695	1,531,017	6,598,478
OPERATING PROFIT/(LOSS)		(15,195,695)	(1,531,017)	1,711,385
OTHER INCOME/(EXPENSES)				
Finance costs		-	-	(162,933)
Finance income	21	35,511	90	7,277
Other Income-Royalty Income		94,852	-	-
Others- net	21,23	(171,263)	-	(3,750,225)
		(40,900)	90	(3,905,881)
INCOME/(LOSS) BEFORE TAX		(15,236,595)	(1,530,927)	(2,194,496)
Provision for income tax		-	-	3,207,712
NET INCOME/(LOSS)		(15,236,595)	(1,530,927)	(5,402,208)
Other comprehensive				
income (loss)				
Net change in fair value of AFS investment	23	(29,644,325)	-	-
Net change in fair value of AFS investment transferred to profit and loss		-	-	-
Net change in foreign currency difference		-	-	-
Total comprehensive income (loss)		(44,880,920)	(1,530,927)	(5,402,208)
Earnings (loss) per share	26	(0.0000988)	(0.00001779)	(0.00010327)

*(The accompanying notes are integral part of these financial statements)*

GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES  
(Formerly MUSX Corporation and its Subsidiaries)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six Months Ended June 30, 2013, 2012, 2011 and for the Year Ended December 31, 2012

	Share capital (Note 19)	Share premium (Note 20)	Other Reserves (Note 9)	Non-Controlling Interest (Note 27)	Deficit	Total Equity
Balance at January 1, 2013	1,100,278,565	268,090,531	(19,765,525)	294,387,566	(302,795,513)	1,340,195,624
Transactions with owners, directly recorded in equity						
Issuance of common shares	301,000,000	-	-	-	-	301,000,000
Increase/Decrease in subscription receivable	(132,000,000)	-	-	-	-	(132,000,000)
Total after transactions with owners	169,000,000	-	-	-	-	169,000,000
Total comprehensive income (loss)						
Income/Loss for the period	-	-	-	(5,903,115)	(21,262,114)	(27,165,229)
Other comprehensive income (loss)	-	-	(39,960,706)	-	-	(39,960,706)
Total comprehensive income (loss) for the year	-	-	(39,960,706)	(5,903,115)	(21,262,114)	(67,125,935)
Transactions with Non-controlling interest						
Non-controlling interest arising from business combination	-	-	-	-	-	-
Adjustment on post acquisition of non-controlling interest	-	-	-	(27,900,212)	-	(27,900,212)
Balance at June 30, 2013	1,269,278,565	268,090,531	(59,726,231)	260,584,239	(324,057,627)	1,414,169,477
Balance at January 1, 2012	522,010,005	60,321,971	28,683,061	-	(276,744,780)	334,270,257
Transactions with owners, directly recorded in equity						
Issuance of common shares	250,000,000	-	-	-	-	250,000,000
Issuance of shares-minority interest	-	-	-	(64,871)	-	(64,871)
Increase/Decrease in subscription receivable	(187,500,000)	-	-	-	-	(187,500,000)
Total after transactions with owners	62,500,000	-	-	(64,871)	-	62,435,129
Total comprehensive income (loss)						
Income/Loss for the period	-	-	-	-	(6,877,576)	(6,877,576)
Other comprehensive income (loss)	-	-	-	-	-	-
Total comprehensive income (loss) for the period	-	-	-	-	(6,877,576)	(6,877,576)
Balance at June 30, 2012	584,510,005	60,321,971	28,683,061	(64,871)	(283,622,356)	389,827,810



Balance at January 1, 2011	308,750,000	60,321,971	6,402,807	-	(12,161,877)	363,312,901
Transactions with owners, directly recorded in equity						
Issuance of common shares	138,760,005	-	-	-	-	138,760,005
Issuance of shares-minority interest	-	-	-	-	-	-
Increase/Decrease in subscription receivable	(9,000,000)	-	-	-	-	(9,000,000)
Total after transactions with owners	129,760,005	-	-	-	-	129,760,005
Total comprehensive income (loss)						
Income/Loss for the period	-	-	-	-	(4,633,414)	(4,633,414)
Other comprehensive income (loss)	-	-	(37,768,457)	-	(7,949,962)	(45,718,419)
Total comprehensive income (loss) for the period	-	-	(37,768,457)	-	(12,583,376)	(50,351,833)
Balance at June 30, 2011	438,510,005	60,321,971	(31,365,650)	-	(24,745,253)	442,721,073
Balance at January 1, 2012	522,010,005	60,321,971	28,683,061	-	(276,744,780)	334,270,257
Transactions with owners, directly recorded in equity						
Issuance of common shares	734,768,560	207,768,560	-	-	-	942,537,120
Issuance of shares-minority interest	-	-	-	-	-	-
Increase/Decrease in subscription receivable	(156,500,000)	-	-	-	-	(156,500,000)
Total after transactions with owners	578,268,560	207,768,560	-	-	-	786,037,120
Total comprehensive income (loss)						
Income/Loss for the year	-	-	-	(2,033,220)	(26,050,733)	(28,083,953)
Other comprehensive income	-	-	(19,120,734)	-	-	(19,120,734)
Total comprehensive income (loss) for the year	-	-	(19,120,734)	(2,033,220)	(26,050,733)	(47,204,687)
Transactions with Non-controlling interest						
Non-controlling interest arising from business combination	-	-	-	267,092,934	-	267,092,934
Post acquisition of non-controlling interest	-	-	(29,327,852)	29,327,852	-	-
Total after transactions with Non-controlling interest	-	-	(29,327,852)	296,420,786	-	267,092,934
Balance at December 31, 2012	1,100,278,565	268,090,531	(19,745,525)	294,387,566	(302,795,513)	1,340,195,624

(The accompanying notes are integral part of these financial statements)

**GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES**  
(Formerly MUSX Corporation and its Subsidiaries)

**CONSOLIDATED STATEMENT OF CASH FLOW**

For the six months ended June 30, 2013, 2012, 2011 and December 31, 2012

	in Philippine Peso (Functional and Presentation Currency)			
Note	2013	2012	2011	December 31, 2012
<b>Cash flows from operating activities</b>				
Income (loss) before tax	(27,181,561)	(2,349,271)	(675,295)	(28,083,953)
Adjustments for:				
Finance income	21 (1,386,088)	-	-	(2,336,826)
Finance costs		-	162,933	
Other income	21 -	513	(7,277)	(8,563,726)
Impairment losses	(39,960,706)	-	-	19,608,630
Depreciation and amortization	22 1,322,429	4,729	315,798	512,978
Operating income (loss) before working capital changes	(67,205,926)	(2,344,029)	(203,841)	(18,862,897)
Decrease (increase) in:				
Trade and other receivables	8 (24,137,660)	(174,970)	10,194,463	(894,165)
Inventories		-	16,911,875	
Prepayments and other current assets	11 (4,265,423)	(95,499)	39,407,268	(3,320,443)
Advances to Project	14 (93,964,067)	-	(25,000,000)	
Advances to related party	24 (139,129)	(55,760)	-	(267,876,242)
Increase (decrease) in:				
Trade and other payables	17 630,403	5,057,788	(25,013,599)	1,104,668
Advance from related party	24 82,242	-	-	(1,079,976)
Retirement liability				
Increase (decrease) in retirement benefit obligation	150,000	100,000	-	
Cash generated from (used in) operations	(188,849,561)	2,487,570	16,296,206	(296,129,025)
Income tax paid	-	(58,527)	(3,958,075)	(41,099)
Other income - royalty	21 94,852	-	-	
Finance income	21 1,207,568	(913)	7,277	2,336,826
Net cash provided by (used in) operating activities	(187,447,141)	2,428,530	12,345,408	(287,833,288)
<b>Cash flows from investing activities</b>				
Increase/Decrease in intangible assets	(1,537,028)	-	(110,150)	-
Acquisitions/Sale of AFS investments	9 2,372,001	(60,773,207)	-	(84,142,533)
Investment in subsidiaries/associates	15 25,000,000	-	-	(175,343,937)
Advances for future stock subscription/projects	10 200,000,000	-	-	12,959,236
Proceeds from disposition of AFS investments				
Additions to property and equipment	16 (285,808,087)	(232,949,341)	-	86,204
Decrease/(increase) in other non-current assets	(240,170)	(113,231)	3,958,075	
Decrease/(increase) in other reserves				
Net cash used in investing activities	(140,213,284)	(293,835,779)	3,847,917	(246,441,040)
<b>Cash flows from financing activities</b>				
Deposit for future subscription		235,000,000	-	235,000,000
Net proceeds from issuance of common shares	19 169,000,000	62,500,000	113,129,871	706,037,120
Non Controlling Interest		(64,871)	-	
Expenses from issuance of common shares		(4,578,305)	-	
Payments of interest-bearing loans and borrowings	-	(1,430,933)	(430,600)	(478,400)
Finance cost paid			(162,933)	
Proceeds from availed interest-bearing loans and borrowings				
Net cash provided by financing activities	169,000,000	291,475,891	112,536,338	1,020,558,720
Effect of:				
Exchange rates changes on cash on hand and in banks				(14,162,641)
Revaluation reserves	(27,900,212)	-	(22,993,688)	
Recognition of Minority Interest				
Net increase (decrease) in cash on hand and in banks	(206,719,437)	68,642	105,735,975	472,021,751
January 1	472,623,537	601,786	29,114,393	641,786
Balance End	265,904,100	670,428	144,850,368	472,623,537

(The accompanying notes are integral part of these financial statements)

**GREENERGY HOLDINGS INCORPORATED AND ITS SUBSIDIARIES**  
*(formerly MUSX Corporation and its Subsidiaries)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE PERIOD ENDED JUNE 30, 2013, 2012 AND FOR THE YEAR ENDED DECEMBER 31,**  
**2012**  
*(With comparative figures for 2011)*

**NOTE 1 - CORPORATE INFORMATION**

Greenergy Holdings Incorporated (formerly MUSX Corporation, the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) per Registration No. ASO92-00589 in 1992 to engage in the creation, design, development and manufacture of specialty semiconductors products and to market and sell the same to customers worldwide. In 1999, the Parent Company became a holding Parent Company but reverted to a semiconductor operations Parent Company in 2003. In 2008, as approved by the SEC on December 15, 2008, the Parent Company changed its primary purpose to a holding Parent Company. At present, the Parent Company continues to operate as a holding Parent Company.

On June 22, 2011, the SEC approved the following amendments, among others, to the Parent Company's Articles of Incorporation:

- a. Change in the registered business name from MUSX Corporation to its current name;
- b. Change in the principal office and place of business of the Corporation from L14 Net Cube Centre, 3<sup>rd</sup> Avenue corner 30<sup>th</sup> Street, E- Square Crescent Park, West Bonifacio Global City, Taguig to 54 National Road, Dampol II-A, Pulilan, Bulacan;
- c. Decrease in par value from Ten Centavos (Php 0.10) per share to One Centavo (Php 0.01) per share; and
- d. Increase in authorized capital stock from Five Hundred Million Pesos (Php 500,000,000.00) divided into Five Billion (5,000,000,000) shares at par value of Ten Centavos (Php 0.10) per share to One Billion Pesos (PHP 1,000,000,000) divided into One Hundred Billion (100,000,000,000) shares with par value of One Centavo (Php 0.01) per share.

The Parent Company's shares of stocks are listed with the Philippine Stock Exchange, Inc. (PSE) with the ticker code GREEN.

**1.1 Status of operations**

In the latter part of 2010, the Parent Company began its initiative in venturing into other business opportunities apart from the semiconductor business from which the Parent Company was founded. As part of its preparation to venture into other fields of business, such as but not limited to the fields of renewable energy and waste management systems, the stockholders, during the annual stockholders meeting held on December 23, 2010, approved, among others, the proposal to change the name of the Parent Company to its present name. On the same meeting, the stockholders approved the growth strategy of the Parent Company to retain an interest in its semiconductor business, Music Semiconductors Philippines, Inc. (MSPI), and divest 61% interest therein, as well as divest all interests in the foreign subsidiaries, namely: MUSIC Semiconductors, Inc. (MSI), Musem Electronic N.V. (Musem) and Protelcon, Inc. (Protelcon).

In order to diversify risk and accomplish the goals of consistent revenue and operating profit growth, the Parent Company has identified, and closed, other (non-semiconductor) investment opportunities. These businesses will, within their own markets, have a recipe for success based around providing products and/or services of the highest quality, and at a price lower than its competition.

The principal subsidiaries/associates of the Parent Company as of June 30, 2013, 2012 and 2011 are as follows:

Name of Subsidiary	Country of Incorporation	Principal Activity	Percentage of Ownership		
			2013	2012	2011
Music Semiconductors Philippines, Inc. (MSPI)*	Philippines	Logistics and Manufacturing	39.00%	39.00%	39.00%
Music Semiconductors, Inc. (MSI)**	United States	Trading	0.00%	0.00%	90.80%
Musem Electronic N.V. (Musem)**	Netherlands	Trading	0.00%	0.00%	99.99%
Protelcon, Inc. (Protelcon)**	United States	Trading	0.00%	0.00%	52.60%
Total Waste Management Recovery System, Inc. (TWMRSI)	Philippines	Waste Management	51.00%	51.00%	0.00%
Winsun Green Venture, Inc. (WGV)	Philippines	Renewable Energy	100.00%	0.00%	0.00%
Biomass Holdings Inc. (BHI) San Carlos Biopower Inc. (SCBI)***	Philippines	Holding/Energy	60%/64%	0.00%	0.00%
Isabela Aicogas Corporation (IAC)	Philippines	Manufacturing	50.00%	0.00%	0.00%

\*Classified as an associate in July 2011

\*\*Dormant company/divested in July 2011

\*\*\*Classified as an associate of BHI in 2012

#### MSPI

MSPI was incorporated and registered with the SEC on November 17, 1999. MSPI, which was established to take over the original production-related business of the Parent Company, is primarily engaged in the testing of integrated circuits.

On March 2, 2009, MSPI's Board of Directors (BOD) approved the change in the primary purpose of MSPI from manufacturing of semiconductors products to development, sales, marketing and logistics of semiconductors products. Relative to this, MSPI fully outsourced to third party its manufacturing operation effective January 2009. On the same date, the BOD also approved the change in the principal address of MSPI from Canlubang, Laguna to Alabang, Muntinlupa City and for its logistics operation to Carmona, Cavite.

On August 1, 2011, the SEC approved the increase in the authorized capital stock of MSPI from P10,000,000 divided into 100,000 shares with par value of P100 per share to P16,857,200.00 divided into 16,857,200 shares with par value of P1 per share. The Parent Company, with the approval and ratification by stockholders on October 19, 2011, has waived its pre-emptive right to subscribe to the issuance of shares by MSPI in relation to the divestment of 61% therein as approved on December 23, 2010. Thus, the Parent Company has decreased its stake in MSPI to 39%.

On March 13, 2012, the Parent Company's BOD approved MSPI's plan to look for prospective investors to fund its expansion program, thereby waiving the Parent Company's rights to exercise preemptive right and retain the present 39% stake in MSPI, and eventually list MSPI's shares with the Philippine Stock Exchange in compliance with existing rules.

#### MSI

The Parent Company held a 90.8% indirect interest in Innovative Technology LLC, through its then subsidiary, MSI, which owns 100% of Innovative Technology LLC, an entity incorporated in the United States which has been dormant since December 31, 2001. MSI was established primarily as the sales and marketing arm of the Group, but in addition, undertook the role as the developer of the new products during the period of 1999 to 2001.

During 2001, MSI suffered significant business losses as a result of the implosion of the internet and telecom markets, the two main markets of its customers. On January 30, 2002, MSI filed a motion for voluntary bankruptcy under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court of the Northern District of California. On June 11, 2003, the court approved the plan of Reorganization filed by MSI.

On December 24, 2008, the court issued its final decree and ordered that all the properties of MSI dealt with under the Plan of Reorganization are free and clean of claims and interest of its creditors. Creditors were fully paid in the amount of \$9,453,799 during the bankruptcy process.

#### Musem

Musem is a Dutch Parent Company responsible for sales and marketing in Europe.

#### TWMRSI

On June 13, 2011, the BOD of the Parent Company approved to acquire fifty one percent (51%) of TWMRSI, a domestic corporation engaged in the business of building, operating and managing waste recovery facilities and waste management systems within the Philippines. This was approved and ratified by the stockholders on October 19, 2011. In 2011, the Parent Company has made a total of P235,000,000 as advances for future stock subscription to TWMRSI. On March 27, 2012, the SEC approved the application for increase in authorized capital stock of TWMRSI from P1,000,000 to P2,000,000. On the same date, the Parent Company infused additional P260,204 to purchase 260,204 shares or a 51% interest in the capital stock of TWMRSI. On December 28, 2012, the Parent Company acquired additional 36.5% ownership or 1,489,796 shares of TWMRSI through the conversion of its P235,000,000 advances for future stock subscription.

#### WGVI

On June 22, 2012, the SEC approved the incorporation of WGVI, the Parent Company's wholly-owned subsidiary, with a primary purpose of engaging in renewable energy resources.

#### BHI

On October 31, 2012, the SEC approved the incorporation of BHI, a 60% owned subsidiary of the Parent Company, BHI is incorporated with the primary purpose of investing in any other entity engaged in the business and/or operation of renewable energy systems and/or harnessing renewable energy resources.

#### SCBI

On July 29, 2009, the SEC approved the incorporation of SCBI, a 64% owned by the subsidiary Biomass Holdings Inc. SCBI is incorporated with the primary purpose of operating, managing, maintaining and rehabilitating energy systems and services for steam and electricity, including bulk procurement, marketing and setting up of arrangements and brokerage of the same energy systems as necessary for the generation, transmission, distribution and sale and delivery of electricity to domestic, commercial, industrial users or distribution companies and the acquisition and/or lease of franchise from private and/or government entities and such other rights and activities incidental thereto or for the purpose set forth. The company is registered with the Board of Investments (BOI) as a New Renewable Energy Developer of Biomass Energy Resources for its 18MW Biomass Energy System under Registration Certificate No. 2012-273 dated December 21, 2012. As a registered enterprise, the Company enjoys an Income Tax Holiday incentive of 7 years starting January 2015. The company's office is located at the Circumferential Road, San Carlos Ecozone, San Carlos, Negros Occidental. SCBI is already preparing for the construction of its MW multi-fuel thermal power plant and the projected financial statements show that the company will generate future income that will be enough to wipe out the capital deficiency. Further, the company received deposit for future stock subscription amounting to P200,000,000 in 2012 which will be converted to equity in 2013 to finance the construction of the power plant.

On the 8<sup>th</sup> day of May 2013, SEC approved the increase of capital stock of SCBI from P40,000.00 divided into 200 common shares with the par value of P200.00 each and 2,000,000 founders' shares with a par value of P0.01 each to P1,053,282,000.00 divided into 6,680,000 common shares with the par value of



P100.00 each, 3,200,000 founders shares with a par P0.01 each and 575,000 preferred shares with a par value of P670.00 each, approved by majority of the Board of Directors and the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock on November 29, 2012, certified to by the Chairman and the Secretary of the stockholders' meeting and a majority of the Board of Directors of the corporation, was approved by the Commission on the date indicated hereunder in accordance with the provision of Section 38 of the Corporation Code of the Philippines (Batas Pambansa Blg.68), approved on May 1, 1980.

#### IAC

On October 17, 2007, The SEC approved the incorporation of IAC, a 50% owned subsidiary of the Parent Company. IAC primary purpose is to engage in the business of manufacturing of goods such as *ethanol* and *other biofuel* and to trade the same on wholesale/retail basis.

#### *Other investment matters*

#### TTIDC

The Parent Company also entered into an agreement with Tianjin Tianbao Investment and Development Corporation (TTIDC) for the establishment of a joint venture vehicle for the development, funding and operation of renewable energy projects. The agreement between the Parent Company and TTIDC was approved and ratified by the stockholders on October 19, 2011.

On March 13, 2012, the BOD approved the proposal for TTIDC to assign its rights and obligations under the Memorandum of Agreement to its affiliate, China Power (Tianjin) New Energy Development Co. Ltd. As at December 31, 2012, contract for the assignment of the Memorandum of Agreement and establishment of the joint venture project has not been executed.

#### Cleantech

On August 15, 2012, the Parent Company entered into an Investment Agreement with Cleantech Projektgesellschaft mbH (Cleantech), a fund managed by the ThomasLloyd Global Asset Management (Switzerland) AG of Zurich. Under the Investment Agreement, Cleantech shall subscribe to 20,776,856,000 primary shares of the Parent Company for an issue price of P0.02 per share, or a total subscription price of P415,537,300.00, and will be issued two (2) Warrant Certificates under the American call option covering 10,489,500,000 shares of the Parent Company with a strike price of P0.02 per share and 10,489,500,000 shares of the Parent Company with a strike price of P0.03 per share, exercisable within 1 year and 3 years from issuance, respectively. The Parent Company, on its part, shall separately raise fresh capital through the issuance of new shares from its unissued authorized capital stock amounting to P252,000,000 on or before October 31, 2012. The Parent Company may also issue stock warrants that would allow subscription of up to 8,123,999,500 shares of the Parent Company from its unissued authorized capital stock. The additional warrants shall contain the same terms and conditions as the warrants issued to Cleantech. The total proceeds of the investment shall be used by the Parent Company and Cleantech, through Biomass Holdings, Inc. (BHI), a new subsidiary to be established by the Parent Company under a 60-40 arrangement with Cleantech, to invest in the new biomass power plant of San Carlos BioPower, Inc. (SCBI) in Negros. The closing of the subscription transaction with Cleantech eventually took place on October 5, 2012 and the subscription by private placement investors amounting to P252,000,000 was executed on October 31, 2012. The SEC approved the incorporation of BHI on October 31, 2012.

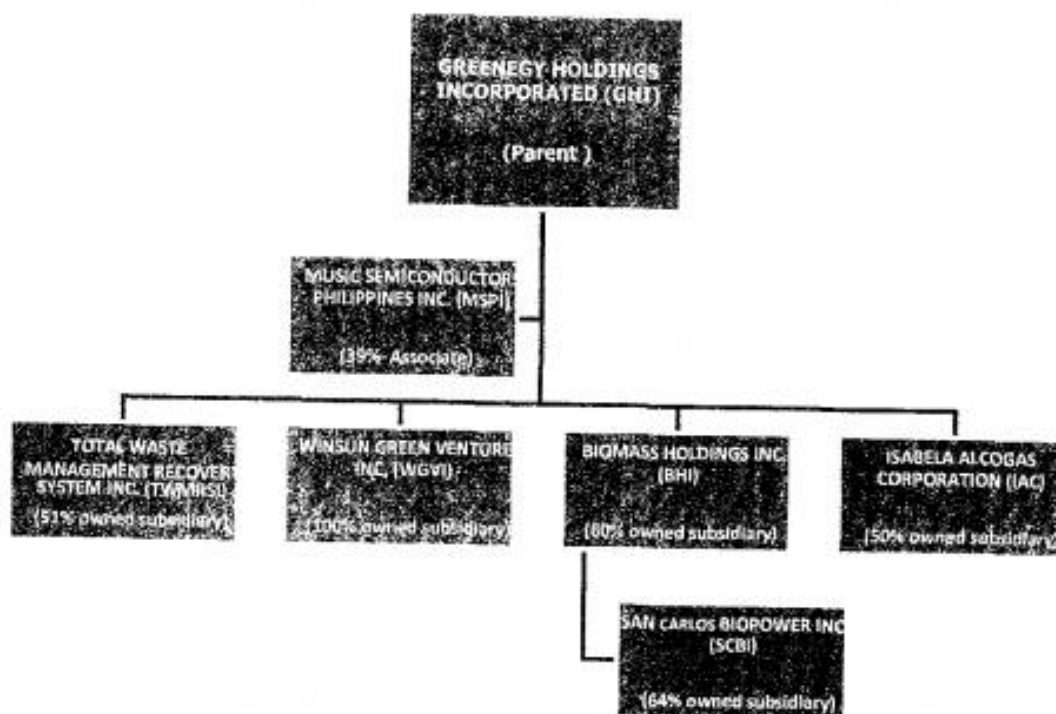
#### Hydroring Capital BV

On September 14, 2012, the Parent Company entered into a preliminary agreement ("Term Sheet") with Hydroring Capital BV (HC) for the development, operation and management of multiple hydropower projects, infrastructures and/or facilities in the Philippines using the "Hydroring"- concept, with the aim of providing affordable access to environmentally friendly and sustainable sources of renewable energy. HC is a Dutch enterprise which has developed a hydropower concept based on a portfolio of proprietary turbine innovations with a variety of added value components. Under the Term Sheet, the Parent Company and HC, or their respective designees, shall establish a joint venture vehicle through the incorporation of a new Parent Company under the laws of the Philippines. The new Parent Company which



will be under a 60-40 equity arrangement (60% for the Parent Company and 40% for HC) shall have an authorized capital stock of about €4,000,000, subject to conversion to Philippine Peso. As of December 31, 2012, the joint venture vehicle with HC has not yet been established.

### MAP OF INTERCOMPANY RELATIONSHIP



#### 1.2 Approval of financial statements

The consolidated financial statements of the Group as at and for the period ended June 30, 2013 were reviewed by the Board of Directors and authorized for issue by the BOD on July 12, 2013 and that the President was authorized to sign and approve the financial statements on their behalf.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Group's financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

##### *Statement of compliance*

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

##### *Basis of measurement and presentation*

The Group's consolidated financial statements have been prepared on historical cost basis except for available-for-sale (AFS) financial assets that have been measured at fair value.

#### *Functional and presentation currency*

The Group's consolidated financial statements are presented in Philippine Peso (P), which is the Parent Company's functional and presentation currency. All values are rounded off to the nearest Philippine Peso, unless otherwise indicated.

On March 19, 2013, based on the considerations set forth in PAS 21, *The Effects of Changes in Foreign Currency Exchange Rates*, the Parent Company notified the SEC that the Group has determined that its functional currency is the Philippine Peso and that it will file its financial statements expressed in Philippine Peso starting in January 1, 2013.

#### *Use of judgments and estimates*

The preparation of consolidated financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effects are disclosed in Note 3.

#### *Changes in accounting policies and disclosures*

##### *(a) New standards, interpretations and amendments effective from January 1, 2012*

The accounting policies adopted are consistent with those of the previous period except for the following new standards, interpretations and amendments effective for the first time from January 1, 2012 of which none have had a material effect on the financial statements:

- Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters, effective July 1, 2011
- Amendments to PFRS 7: Disclosures - Transfers of Financial Assets, effective July 1, 2011
- Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets, effective January 1, 2012

The adoption of the standards or interpretations is described below:

- **Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters:** The amendments are effective July 1, 2011. Earlier application is permitted. The first amendment replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRSs', thus eliminating the need for companies adopting PFRSs for the first time to restate derecognition transactions that occurred before the date of transition to PFRSs.

The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRSs after a period when the entity was unable to comply with PFRSs because its functional currency was subject to severe hyperinflation.

The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- **Amendments to PFRS 7, Disclosures - Transfers of Financial Assets:** The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

The amendment affects disclosure only and has no impact on the Group's financial position or performance.

- **Amendments to PAS 12, Deferred Tax: Recovery of Underlying Assets:** The amendments are effective January 1, 2012. Earlier application is permitted. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in PAS 40, *Investment Property*. Under PAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. However, it is often difficult and subjective to determine the expected manner of recovery when the investment property is measured using the fair value model in PAS 40.

To provide a practical approach in such cases, the amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Philippine Interpretation SIC-21 (PIC-21), *Income Taxes - Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*. The amendments incorporate PIC-21 into PAS 12 after excluding investment property measured at fair value from the scope of the guidance previously contained in PIC-21.

The adoption of the amendment did not have any impact on the financial position or performance of the Group.

(b) *New standards, interpretations and amendments issued but not yet effective*

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt the standards that will be applicable to them when they become effective.

- **Amendments to PFRS 1: Government Loans:** The amended standard shall be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The amendments add an exception to the retrospective application of PFRSs. First-time adopters are required to apply the requirements in PFRS 9, *Financial Instruments* (if PFRS 9 is not yet adopted, references to PFRS 9 in the amendments shall be read as references to PAS 39, *Financial Instruments: Recognition and Measurement*) and PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to PFRSs. A first-time adopter may apply the requirements of PFRS 9 and PAS 20 to government loans retrospectively if it has obtained the necessary information to do so.

The Group expects no significant impact from the adoption of this new interpretation on its financial position and performance.

- **Amendments to PFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities:** The amended standard shall be applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment involves the revision of the required disclosures to include information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. An entity shall provide the disclosures required by the amendments retrospectively. The amendment affects only the disclosures and will have no impact on the Group's financial position and performance.
- **PFRS 9, Financial Instruments - Recognition and Measurement:** PFRS 9 as issued reflects the first phase of the FRSC work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the FRSC will address classification and measurement of financial liabilities, hedge accounting and derecognition. As a new requirement in this standard, an entity choosing to measure a liability at fair value shall present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss.

The Group did not conduct an evaluation on possible financial impact of an early adoption of the new standard as the Group will not early adopt the standard. However, initial indication show that adoption of amendments to PFRS 9 will have no significant impact on the Group's financial position or performance.

- **Amendments to PFRS 9 and PFRS 7, Mandatory Effective Date of PFRS 9 and Transition Disclosures:** The amended standards shall be applied for annual periods beginning on or after January 1, 2015. Earlier application is permitted. The amendments involve the following: (a) change of the original January 1, 2013 mandatory effective date of PFRS 9 to January 1, 2015; (b) modification of the relief from restating prior periods; and (c) additional required disclosures on transition from PAS 39, *Financial Instruments: Recognition and Measurement* to PFRS 9.

The amendments only affect the disclosures and will have no impact on the Group's financial position or performance.

- **PFRS 10, Consolidated Financial Statements:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 10 replaces PAS 27, *Consolidated and Separate Financial Statements* and Philippine Interpretation SIC-12 (PIC-12), *Consolidation - Special Purpose Entities*.

PFRS 10 was developed to eliminate perceived conflict on concept of consolidation between PAS 27 (amended in 2008) and PIC-12. PAS 27 (amended in 2008) requires consolidation of entities based on the power to govern its financial and operating policies whereas PIC-12 mandates consolidation of entities based on risks and rewards.

PFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. It provides a new definition of control based on three elements: power over the investee, exposure or rights to variable returns from involvement with the investee, and ability to use power over the investee to affect the amount of investor's return.

The Group has yet to assess PFRS 10's full impact and intends to adopt PFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- **Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities:** The amended standards shall be applied for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. It also sets out disclosure requirements for investment entities into PFRS 12 and amends PAS 27.

The Group is currently assessing the impact that this standard will have on its financial position and performance

- **PFRS 11, Joint Arrangements:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. This standard requires an entity to account for joint arrangements based on its rights and obligations arising from the arrangement rather than based on the structure of the arrangement as required by PAS 31. PFRS 11 has removed the option to account jointly controlled entities (JCEs) using the proportionate consolidation method. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Group is currently assessing the impact that this standard will have on its financial position and performance.

- **PFRS 12, Disclosure of Interests in Other Entities:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 12 combines, enhances



and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The adoption of this new standard will result to a number of new disclosure requirements.

- **PFRS 13, Fair Value Measurement:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 13 was developed to eliminate inconsistencies of fair value measurements dispersed in various existing PFRSs. It defines fair value, sets out in a single PFRS a framework for measuring fair value and requires disclosures about fair value measurements. PFRS 13 applies when other PFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in PFRSs or address how to present changes in fair value.

The Group is currently assessing the impact that this standard will have on its financial position and performance.

- **Amendments to PAS 1: Presentation of Items of Other Comprehensive Income:** The new requirements are effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted. The amendments improved the consistency and clarity of the presentation of items of other comprehensive income. The amendments also highlighted the importance that the board places on presenting profit or loss and other comprehensive income together and with equal prominence.

The main change resulting from the amendments was a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments did not address which items are presented in other comprehensive income. The amendments did not change the option to present items of other comprehensive income either before tax or net of tax. However, if the items are presented before tax, then the tax related to each of the two groups of other comprehensive income items (those that might be reclassified and those that will not be reclassified) must be shown separately.

The amendment will affect the presentation of items of other comprehensive income in the Group's statement of comprehensive loss.

- **PAS 19 (Amended), Employee Benefits:** The amended standard is applied retrospectively with limited exceptions. Entities shall apply the amended PAS 19 for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The amendments will improve the recognition and disclosure requirements for defined benefit plans. Significant changes to this standard include: elimination of the corridor approach and recognition of all actuarial gains and losses in other comprehensive income as they occur; immediate recognition of all past service costs; and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

The amendment will not have any significant impact on the Group's financial position or performance.

- **PAS 27 (Amended), Separate Financial Statements:** The amended standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PAS 27 (Amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. It requires an entity preparing separate financial statements to account for those investments at cost or in accordance with PFRS 9, *Financial Instruments*.

The adoption of this new standard will result to a number of new disclosure requirements.

- **PAS 28 (Amended), Investments in Associates and Joint Ventures:** The amended standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PAS 28 (Amended) prescribes the accounting for investments in associates and sets out the

requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The amendment will affect the presentation of items of statements of financial position and will result to a number of new disclosure requirements.

- **Amendments to PAS 32, Offsetting Financial Assets and Financial Liabilities:** The amended standard shall be applied for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. Earlier application is permitted. This amendment provides additional application guidance for offsetting in accordance with PAS 32. It clarifies the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The Group expects no significant impact from the adoption of the amendments on its financial position or performance.

- **Philippine Interpretation IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine:** This interpretation shall be applied for annual periods beginning on or after January 1, 2013 prospectively. Earlier application is permitted. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs') and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

The Group expects no significant impact from the adoption of this new interpretation on its financial position and performance.

#### *Annual Improvements to PFRSs (2009 - 2011 Cycle)*

The Annual Improvements to PFRSs (2009-2011 Cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- **PFRS 1, First-time Adoption of Philippine Financial Reporting Standards:** Clarify that the Company is required to apply PFRS 1 when the most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with PFRSs, even if the Company applied PFRS 1 in a reporting period before the period reported in the most recent previous annual financial statements.
- **PAS 1 - Presentation of Financial Statements - Clarification of the Requirements for Comparative Information:** Clarify the requirements for providing comparative information when the Company provides financial statements beyond the minimum comparative information requirements. Where the Company changes its accounting policy or makes retrospective restatements or reclassifications of items in the financial statements, the Company is required to present an opening statement of financial position at the beginning of the required comparative period. The related notes are not required to accompany the opening statement of financial position.
- **PAS 16 - Property, Plant and Equipment - Classification of Servicing Equipment:** Clarify that servicing equipment should be recognized as property, plant and equipment when it is used during more than one period and as inventory otherwise.
- **PAS 32 - Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments:** Clarify that income tax relating to distribution to holders of an equity instrument and to transaction costs of an equity transaction are accounted for in accordance with PAS 12.
- **PAS 34 - Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities:** Clarify that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the previous annual financial statements for that reportable segment.



## 2.2 Basis of consolidation

### *Basis of consolidation from January 1, 2010*

The Group's consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries as at June 30, 2013.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income is attributable to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

### *Basis of consolidation prior to January 1, 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 has not been restated.

## 2.3 Business combinations

### *Business combinations from January 1, 2010*

The consolidated financial statements incorporate the results of business combinations using the acquisition method. The consideration transferred in a business combination are measured at the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity interests from a contingent consideration arrangement, which is recognized at their acquisition-date fair value.

### *Non-controlling interests*

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

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Total comprehensive income is attributable to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
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#### *Acquisition related costs*

Acquisition-related costs incurred to effect a business combination are recognized as expenses in the periods in which the costs are incurred and the services are received.

#### *Classifying or designating identifiable assets acquired and liabilities assumed in a business combination*

At the acquisition date, the Group classifies or designates the identifiable assets acquired and liabilities assumed as necessary to apply other PFRSs subsequently on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date. This includes the separation embedded derivatives in host contracts by the acquiree.

#### *Business combination achieved in stages*

In a business combination achieved in stages, the Group re-measures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss or other comprehensive income as appropriate.

#### *Acquisitions and disposals of non-controlling interests*

Changes in the Group's ownership interest that do not result in a change in control of the subsidiary are accounted for as equity transactions. On disposal of shares of a subsidiary, no gain or loss is recognized. Similarly, subsequent purchases of additional shares in a subsidiary will not require any additional acquisition adjustments. Instead, the carrying amount of the NCI is adjusted to reflect the change in the NCI's ownership interest in the subsidiary. The difference between the amount by which the NCI is adjusted and the fair value of the consideration paid is recognized in equity under "Other Reserves" account.

#### *Contingent consideration*

Subsequent changes that are not measurement period adjustments in the fair value of contingent consideration classified as an asset or liability are recognized either in profit or loss or in other comprehensive income in accordance with PFRS 9 or PAS 39 as applicable. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. In instances when the contingent consideration does not fall within the scope of PFRS 9 or PAS 39, it is accounted for in accordance with PAS 37 or other PFRS as appropriate.

#### *Goodwill*

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

#### *Allocating goodwill to cash-generating units*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in the business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Where goodwill has been allocated to a cash generating unit and the Group disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the Group can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.



### *Business combinations prior to January 1, 2010*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

### **2.4 Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO) that makes strategic decisions.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

### **2.5 Financial instruments**

#### **Financial assets**

##### *Initial recognition and measurement*

Financial assets within the scope of PAS 39 are classified as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as described below:

##### *(a) Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. A financial asset is classified as held for trading if it was acquired or incurred principally for the purpose of selling or repurchasing it in the near term.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of loss.

Financial assets are designated upon initial recognition at FVPL only if the criteria under PAS 39 are satisfied. The Group has not designated any financial assets at FVPL.

*(b) Loans and receivables*

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. After initial measurement, such financial assets are subsequently measured at amortized cost using effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of loss. The losses arising from impairment are recognized in the consolidated statement of loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account with the loss being recognized within other operating expenses in the consolidated statement of loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise cash on hand and in banks, receivables, loans receivable and advances to related parties in the consolidated statements of financial position (see Notes 7, 8, 13 and 24).

*(c) HTM investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortization is included as finance income in the consolidated statement of loss. The losses arising from impairment are recognized in the consolidated statement of loss in finance cost.

The Group did not hold any HTM investments during the year.

*(d) AFS investments*

AFS investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of loss in finance costs. Interest earned while holding AFS investments is reported as finance income using the effective interest method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the AFS category the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of loss.

The Group holds AFS investments amounting to P73,064,652 and 60,773,207 as of June 30, 2013 and 2012, respectively (see Note 9).

#### *Derecognition*

A financial asset is derecognized when: a) the rights to receive cash flows from the asset have expired; b) the Group retains the right to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or c) the Group has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *(a) Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them



for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the consolidated statement of loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of loss.

#### *(b) Financial assets carried at cost*

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### *(c) AFS investments*

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of loss - is removed from other comprehensive income and recognized in the consolidated statement of loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of loss, the impairment loss is reversed through the statement of loss.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at fair value through profit or loss (FVPL) and other financial liabilities. The Group determines the classification of its financial

liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Group's financial liabilities as of June 30, 2013 and 2012 comprise of other financial liabilities which include trade and other payables, interest-bearing loans and borrowings and advances from related parties.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

##### *(a) Financial liabilities at FVPL*

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of loss. Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

The Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at FVPL.

##### *(b) Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of loss.

Other financial liabilities include trade and other payables, interest-bearing loans and borrowings and advances from related parties (see Notes 17, 18, and 24).

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of loss.

#### **Classification of financial instruments between debt and equity**

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability is reported as expense or income.

#### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### **Fair value of financial instruments**

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 4.

### **Fair value measurement hierarchy**

PFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (Note 3). The fair value hierarchy has the following levels:

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b) 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) (Level 2); and
- c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

### **2.6 Cash on hand and in banks**

Cash includes cash on hand and cash in banks. Cash in banks earns interest at respective bank deposit rates.

### **2.7 Prepayments and other current assets**

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to the consolidated statement of income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the Group's consolidated statement of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise prepayments are classified as noncurrent assets.

Other current assets are recognized when the Group expects to receive future economic benefit from it and the amount can be measured reliably.

### **2.8 Investment in associate**

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

The consolidated statement of loss reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its



share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement loss. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the share of profit or loss of an associate' in the consolidated statement of loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of loss.

#### **2.9 Advances for future stock subscriptions**

Advances for future stock subscription refer to the amount of cash or property paid by the Group with the purpose of applying the same as payment for future investments.

#### **2.10 Property and equipment**

Property and equipment are initially measured at cost and subsequently measured at cost less any subsequent accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, import duties, taxes and directly attributable costs of bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of property and equipment such as additions, major improvements and renewals are added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Expenditures for repairs and maintenance are charged to administrative expenses in the consolidated statement of loss during the period in which these are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the following property and equipment:

Transportation equipment	5 years
Office equipment	5 years
Machinery and equipment	5 years
Industrial equipment	25 years

An asset's carrying amount is written-down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The useful lives, residual value and depreciation methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of loss.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to consolidated statement of loss.



When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and any impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to other operating expenses in the consolidated statement of loss.

#### **2.11 Discontinued operations**

In the consolidated statement of loss, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of loss.

#### **2.12 Provisions and contingencies**

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount can be estimated. The expense relating to any provision is presented in the consolidated statement of loss, net of any reimbursement.

Contingent liabilities are not recognized in the Group's financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the Group's financial statements but disclosed in the notes to Group's financial statements when an inflow of economic benefits is probable.

#### **2.13 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets such as property and equipment are reviewed at each financial reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Group's makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset or its cash generating units (CGU) fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

Whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in the consolidated statement of loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. Reversals of impairment are recognized in the consolidated statement of loss.

## 2.14 Equity

### *Share capital*

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Share capital is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as share premium.

The Group's ordinary shares are classified as equity instruments.

### *Share premium*

Share premium includes any premium received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from share premium, net of any related income tax benefits.

### *Deficit*

Deficit includes all current and prior period results as disclosed in the statement income.

### *Fair value reserve*

Fair value reserve comprises the cumulative net change in the fair value of available for sale investments until such investments are derecognized or impaired.

### *Treasury shares*

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium.

## 2.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

### *Finance income*

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### *Gain on sale*

Gain on sale of property and equipment and sale of scrap material is recognized when the risk and reward of ownership of the asset has been transferred to the buyer.

## 2.16 Cost and expense recognition

Cost and expenses are recognized in the consolidated statement of loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Cost and expenses are recognized in the statement of comprehensive loss on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of

systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Expenses in the consolidated statement of loss are presented using the function of expense method. Administrative expenses are costs attributable to administrative activities of the Group.

#### **2.17 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### **2.19 Related parties**

Parties are considered 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. Individuals, associates or companies that directly or indirectly control or are controlled or under common control are considered related parties.

#### **2.20 Income taxes**

Income tax expense represents the sum of the current income tax and deferred income tax.

##### *Current income tax*

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the applicable tax rate for the years presented.

##### *Deferred income tax*

Deferred income tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and are accounted for using the liability method, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized as an expense or income in the consolidated statement of loss except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax are also recognized outside profit or loss.

#### **2.21 Basic and diluted earnings (loss) per share (EPS)**

Basic EPS is computed by dividing profit or loss attributable to the ordinary equity holders of the Group by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

For the purpose of calculating diluted EPS, profit or loss for the year attributable to ordinary equity holders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

#### **2.22 Events after the financial reporting date**

Post year-end events up to the date of the auditor's report that provide additional information about the Group's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

### **NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the Group's financial statements in conformity with PFRS requires the management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Judgments**

##### *Determination of functional currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency is determined to be the US Dollar, which is the currency of the primary economic environment in which the Group operates.

##### *Classification of financial instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual



agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or equity. In addition, the Group also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form, and the management's intention and ability to hold the financial instrument to maturity generally governs its classification in the consolidated statement of financial position.

The classification of financial assets and liabilities is presented in Note 4.

#### *Determination of fair value of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The carrying values and fair values of financial assets and liabilities as of December 31, 2012 and 2011 are disclosed in Note 4.

#### *Discontinued operations*

On November 10, 2010, the Group confirmed its decision to dispose the subsidiaries in semiconductor business consisting of MSPI, MSI, Musem and Protelcon and was ratified by the stockholders on December 23, 2010.

The BOD considered the above mentioned subsidiaries met the criteria to be classified as discontinued operations at that date for the following reasons:

- MSPI, MSI, Musem and Protelcon are available for immediate sale and can be sold to a potential buyer in its current condition.
- The Board had a plan to sell MSPI, MSI, Musem and Protelcon and had entered into preliminary negotiations with a potential buyer.
- The BOD expects negotiation to be finalized and the sale to be completed in 2011.

Moreover, on July 27, 2011, the Parent Company sold its ownership interest from its subsidiaries including all the rights, interest and obligations. For the consideration, the shares were paid at a nominal amount equivalent to one dollar (US\$1) or Forty Three Pesos and 68/100 (P43.68) for each divested entity.

Details of the discontinued operation are set out in Note 12

#### **Estimates and assumptions**

##### *Impairment loss of financial assets*

The Group maintains allowance for impairment loss accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past due status and term) of customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As of June 30, 2013 and 2012, the Group determined that receivables amounting to P25,219,089 and P362,234 respectively were not impaired based on individual assessment (Note 8).

Loans receivable amounting to P8,023,363 were fully impaired as of June 30, 2012 and 2011 (Note 13).

As of June 30, 2013 and 2012, allowance for impairment pertaining to advances to related parties amounted to P39,677,922 and P20,550,775, respectively (Note 24).

#### *Impairment of AFS investments*

The Group classifies certain financial assets as AFS equity securities and recognizes movements in fair value in other comprehensive income and equity.

When a decline in the fair value of an AFS has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from equity to profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

Impairment may be appropriate when there is evidence of deterioration in the financial wealth of investee, industry and sector performance and operational and financing cash flows.

Based on management's assessment, AFS investments are fairly stated, as of June 30, 2013.

#### *Impairment of non-financial assets*

The Group assesses at each financial position date whether there is an indication that the carrying amount of all non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. At the financial reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Based on the management's assessment, property and equipment are fairly stated thus, no impairment loss was recognized during the period ending June 30, 2013 and 2012 (Note 16).

#### *Stock purchase plan*

The Group determines whether its stock purchase plan is considered share based payment transaction under PFRS 2, *Share-based Payment*. In making this judgment, the Group evaluates the substance of the transaction under the plan which considers among others, presence of award element from the employees and vesting requirements, the basis of valuation of the shares and the timing of the issuance of the shares.

Based on the Group's judgment, the stock purchase plan is not covered by PFRS 2, since the transaction constitute only the granting of interest-bearing loans to Group's employees for the purchase of shares of stock of the Group at share price prevailing in the market. Relative to this, the Group's employees are paying the full fair value of the shares at the date of purchase, which demonstrates that the stock purchase plan does not have an award element for the employees.

#### *Estimation of useful lives and residual value of property and equipment*

The Group reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation expense and decrease the related asset

accounts. The estimated useful lives of property and equipment are discussed in Note 2.10 to the financial statements, which showed no changes in 2013 and 2012.

Depreciation expense of the Group's property and equipment amounted to P1,322,428 for the six months period ending June 30, 2013.

The carrying value of property and equipment amounted to P620,999,133 and P236,513,474 as of June 30, 2013 and December 31, 2012, respectively.

	In Philippine Peso						Total
	Transportation equipment	Machinery and office equipment	Tools & Miscellaneous Equipment	Construction-in-progress	Office Furniture & Fixtures	Leasehold improvements	
<b>Cost</b>							
At January 01, 2012	2,445,490	27,316	-	-	-	-	2,472,806
Additions	-	67,040	8,037	235,000,000	19,194	-	235,094,241
Effect of foreign rates	(152,314)	(32,775)	-	-	-	-	(185,089)
At December 31, 2012	2,293,176	61,550	8,037	235,000,000	19,194	-	237,381,958
Additions	50,751,715	185,819	-	330,934,627	3,608,941	326,986	385,808,087
At June 30, 2013	53,044,891	247,369	8,037	565,934,627	3,628,135	326,986	621,190,045
<b>Accumulated Depreciation</b>							
At January 01, 2012	366,826	1,361	-	-	-	-	368,187
Depreciation	489,098	8,292	-	-	2,907	-	500,297
At December 31, 2012	855,924	9,653	-	-	2,907	-	868,484
Depreciation	1,248,926	10,862	-	-	39,266	23,374	1,322,428
At June 30, 2013	2,104,850	20,515	-	-	42,172	23,374	2,190,912
<b>Net book value</b>							
At June 30, 2013	50,940,041	226,854	8,037	565,934,627	3,585,963	303,612	620,999,133
At December 31, 2012	1,437,252	51,897	8,037	235,000,000	16,288	-	236,513,474

#### *Estimating recoverability of deferred tax assets*

Management reviews the carrying amount of deferred tax assets at each reporting date. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. The Group recognized deferred tax assets amounting to P320,375, 113,231 and 80,205 as of June 30, 2013, 2012 and December 31, 2012 respectively.

#### *Determining provisions and contingencies*

The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

#### **NOTE 4 - FINANCIAL INSTRUMENTS**

The following table shows the classification, carrying values and fair values of the Group's financial assets and financial liabilities as of June 30, 2013, 2012 and December 31, 2012.

	For the six months ended June 30				Audited	
	2013		2012		December 31, 2012	
	In Philippine Peso		In Philippine Peso		In Philippine Peso	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>						
<i>Loans and receivable</i>						
Cash in Banks	265,654,100	265,654,100	620,429	620,429	472,573,537	472,573,537
Receivables, net	25,219,089	25,219,089	362,234	362,234	1,081,429	1,081,429
Advances to related parties	269,129,862	269,129,862	19,182,907	19,182,907	268,990,733	268,990,733
Loans and receivables	-	-	-	-	-	-
AFS Investments	73,064,652	73,064,652	60,773,207	60,773,207	75,436,653	75,436,653
	<u>633,067,703</u>	<u>633,067,703</u>	<u>80,938,777</u>	<u>80,938,777</u>	<u>818,082,352</u>	<u>818,082,352</u>
<b>Financial Liabilities</b>						
<i>Other Financial liabilities</i>						
Trade and other payables	3,954,034	3,954,034	1,460,580	1,460,580	1,223,777	1,223,777
Advances from a related parties	7,787,346	7,787,346	4,920,985	4,920,985	-	-
Interest bearing loans and borrowings	593,733	593,733	-	-	1,430,933	1,430,933
	<u>12,335,113</u>	<u>12,335,113</u>	<u>6,381,565</u>	<u>6,381,565</u>	<u>2,654,710</u>	<u>2,654,710</u>

The carrying amounts of cash in banks, receivables, advances to related parties, trade and other payables and advances from related parties approximate their fair values due to the relatively short-term maturities of the financial instruments.

The carrying value of AFS investments differs from their fair value based on the quoted price from PSE at the reporting date.

The carrying value of interest-bearing loans and borrowings approximate their fair value because this is interest-bearing loans at market rate.

The items of income, expenses, gain (losses) of the financial statements follows:



	In Philippine peso		
	For the six months ended June 30		Audited December 31, 2012
	2013	2012	
<b>Income and gains:</b>			
Foreign exchange gain	-	-	3,074,850
Finance income	1,307,568	-	2,336,826
	<u>1,307,568</u>	<u>-</u>	<u>5,411,676</u>
<b>Expenses and losses:</b>			
Provision for impairment loss on advances to related party	-	-	19,608,630
Loss on disposal of AFS investments	-	-	-
Provision for impairment loss on advances to loans receivable	-	-	-
Provision for impairment loss on advances to receivables	-	-	-
Foreign exchange loss	-	-	-
Finance cost	-	-	-
	<u>-</u>	<u>-</u>	<u>19,608,630</u>

#### NOTE 5 - FINANCIAL AND CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities are exposed to a variety of financial risks, which include credit risk, liquidity risk and market risk. Management ensures that it has sound policies and strategies in place to minimize potential adverse effects of these risks on the Group's consolidated financial performance.

##### *Risk management structure*

The Group's BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

##### *Financial risk management objectives and policies*

The Group is exposed to variety of financial risks, which result from both its operating and investing activities. The Group's principal financial instruments comprise of cash on hand and in banks, receivables, advances to related parties and trade and other payables and interest bearing loans and borrowings loans. The main purpose of these financial instruments is to raise finance for the Group's operations.

Group policies and guidelines cover credit risk, liquidity risk and market risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's results and consolidated financial position. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principles.

##### *Credit risk*

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from deposits with banks, as well as credit exposure to receivables from third and related parties.

The Group trades only with recognized, creditworthy third parties. Also, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to doubtful accounts is not significant.

For banks, the Group has maintained its business relationships with accredited banks, which are considered in the industry as universal banks. The receivables from related parties are accordingly collected in accordance with the Group's credit policy.

The Group's exposure to credit risk arises from default of other counterparties, with a maximum exposure equal to the carrying amounts as follows:

	For the six months ended June 30 In Philippine Peso		Audited December 31, 2012
	2013	2012	
<i>Loans and receivables</i>			
Cash in banks	265,654,100	620,429	472,573,537
Receivables, net	25,219,089	362,234	1,081,429
Advances to related parties	269,129,862	19,182,907	268,990,733
Loans receivable	-	-	-
<i>AFS investment</i>	73,064,652	60,773,207	75,436,653
	<u>633,067,703</u>	<u>80,938,777</u>	<u>818,082,352</u>

The following table provides an analysis of the age of the financial assets that are past due but not impaired and these financial assets that are individually determined to be impaired as at the end of the reporting period:

**In Philippine Peso (Functional and Presentation currency)**

	as of June 30, 2013					
	Total	Neither impaired nor past due on the reporting date	Past due but not impaired			Impaired
			1 to 60 days	61 to 90 days	More than 90 days	
<i>Loans and receivables</i>						
Cash in banks	265,654,100	265,654,100	-	-	-	
Receivables, net	153,993,917	25,219,089	-	-	128,774,828	
Advances to related parties	308,807,784	267,153,869	-	1,975,993	39,677,922	
Loans receivable	8,023,363	-	-	-	8,023,363	
<i>AFS investment</i>	73,064,652	73,064,652	-	-	-	
	<u>809,543,816</u>	<u>631,091,710</u>	-	<u>1,975,993</u>	<u>176,476,113</u>	

	as of June 30, 2012					
	Total	Neither impaired nor past due on the reporting date	Past due but not impaired			Impaired
			1 to 60 days	61 to 90 days	More than 90 days	
<i>Loans and receivables</i>						
Cash in banks	620,429	620,429	-	-	-	
Receivables, net	362,234	362,234	-	-	-	
Advances to related parties	19,182,907	55,760	-	19,127,147	-	
Loans receivable	-	-	-	-	-	
<i>AFS investment</i>	60,773,207	60,773,207	-	-	-	
	<u>80,938,777</u>	<u>61,811,630</u>	-	<u>19,127,147</u>	-	

as of December 31, 2012						
	Total	Neither impaired nor past due on the reporting date	Past due but not impaired			Impaired
			1 to 60 days	61 to 90 days	More than 90 days	
<i>Loans and receivables</i>						
Cash in banks	472,573,537	472,573,537	-	-	-	-
Receivables, net	11,276,257	1,081,429	-	-	-	10,194,828
Advances to related parties	308,668,655	267,014,740	1,975,993	-	-	39,677,922
Loans receivable	8,023,363	-	-	-	-	8,023,363
<i>AFS investment</i>	75,436,653	75,436,653	-	-	-	-
	875,978,465	816,106,359	1,975,993	-	-	57,896,113

The credit quality of the Group's financial assets is evaluated using internal credit rating. Financial assets are considered as high grade if the counterparties are not expected to default in settling their obligations, thus credit risk exposure is minimal. These counterparties include banks, customers and related parties who pay on or before due date.

#### *Credit quality per class of financial assets*

The Group's bases in grading its financial assets are as follows:

**High grade** - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

**Standard** - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

**Substandard** - These are receivables that can be collected provided the Group makes persistent effort to collect them.

The table below shows the credit quality by class of financial assets (gross of allowance for credit losses) of the Group based on their historical experience with the corresponding third parties as of June 30, 2013, 2012 and December 31, 2012.

#### **In Philippine Peso (Functional and Presentation Currency)**

as of June 30, 2013							
	Neither Past Due nor Impaired				Past due but not impaired	Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
<i>Loans and receivables</i>							
Cash in banks	265,654,100	-	-	-	-	-	265,654,100
Receivables, net	25,219,089	-	-	-	128,774,828	153,993,917	153,993,917
Advances to related parties	269,129,862	-	-	-	39,677,922	308,807,784	308,807,784
Loans receivable	-	-	-	-	8,023,363	8,023,363	8,023,363
<i>AFS investment</i>	73,064,652	-	-	-	-	73,064,652	73,064,652
	633,067,703	-	-	-	176,476,113	809,543,816	809,543,816

		as of June 30, 2012						
		Neither Past Due nor Impaired						
		High Grade	Standard Grade	Substandard Grade	Unrated	Past due but		Total
						not impaired	Impaired	
<i>Loans and receivables</i>								
	Cash in banks	620,429	-	-	-	-	-	620,429
	Receivables, net	362,234	-	-	-	-	-	362,234
	Advances to related parties	19,182,907	-	-	-	-	-	19,182,907
	Advances to projects	-	-	-	-	-	-	-
	AFS investment	60,773,207	-	-	-	-	-	60,773,207
		<u>80,938,777</u>	-	-	-	-	-	<u>80,938,777</u>

		as of December 31, 2012						
		Neither Past Due nor Impaired						
		High Grade	Standard Grade	Substandard Grade	Unrated	Past due but		Total
						not impaired	Impaired	
<i>Loans and receivables</i>								
	Cash in banks	472,573,537	-	-	-	-	-	472,573,537
	Receivables, net	1,531,428	-	-	-	-	10,194,828	11,726,256
	Advances to related parties	268,990,733	-	-	-	-	39,677,922	308,668,655
	Loans receivable	-	-	-	-	-	8,023,363	8,023,363
	AFS investment	75,436,653	-	-	-	-	-	75,436,653
		<u>818,532,351</u>	-	-	-	-	57,896,113	<u>876,428,464</u>

#### *Impairment assessment*

Impairment losses are recognized based on the results of specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties. This and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

#### *Specific (individual) assessment*

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining amounts of allowances include payment and collection history, timing of expected cash flows and realizable value of collateral, if any.

The Group sets criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss. Accounts subjected to specific impairment and are found to be impaired shall be excluded from the collective impairment computation.

#### *Liquidity risk*

This represents the risk or difficulty in raising funds to meet the Group's commitment associated with financial obligation and daily cash flow requirement. The Group is exposed to the possibility that adverse exchanges in the business environment and/or its operations would result to substantially higher working capital requirements and the subsequent difficulty in financing additional working capital.

The Group's approach to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed. Also, the Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary. The Group likewise regularly evaluates other financing instruments to broaden the Group's range of financing sources.



The following table summarizes the maturity profile of the Group's financial liabilities as of June 30, 2013, 2012 and December 31, 2012, respectively based on the contractual undiscounted payments:

In Philippine Peso (Functional and Presentation Currency)

		as of June 30, 2013			
		On demand	within 1 year	More than 1 year	Total
Trade and other payables		3,954,034	-	-	3,954,034
Interest-bearing loans and borrowings		-	593,733	-	593,733
		<u>3,954,034</u>	<u>593,733</u>	<u>-</u>	<u>4,547,767</u>

		as of June 30, 2012			
		On demand	within 1 year	More than 1 year	Total
Trade and other payables		1,460,580	-	-	1,460,580
Interest-bearing loans and borrowings		-	-	-	-
		<u>1,460,580</u>	<u>-</u>	<u>-</u>	<u>1,460,580</u>

		as of December 31, 2012			
		On demand	within 1 year	More than 1 year	Total
Trade and other payables		3,173,631	-	-	3,173,631
Interest-bearing loans and borrowings		-	952,533	-	952,533
		<u>3,173,631</u>	<u>952,533</u>	<u>-</u>	<u>4,126,164</u>

#### *Market risk*

Market risk refers to the risk that changes in market prices, such as interest rates, foreign exchange rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group is subject to various market risks, including risks from changes in interest rates and foreign currency exchange rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's interest-bearing loans and borrowings.

#### *Interest rate sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of interest-bearing loans and borrowings with all other variables held constant, the Group's profit before tax is affected as follows:

	Increase/decrease interest rate	Effect on profit before tax	
		In US Dollar (Functional Currency)	In Philippine Peso (Presentation Currency)
2013	+1%		
	-1%		
2012	+1%	US\$-	P-
	-1%	-	-
2011	+1%	US\$16	P695
	-1%	(16)	(695)
2010	+1%	-	-
	-1%	-	-
2009	+1%	-	-
	-1%	-	-

#### Foreign currency exchange risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in Philippine Peso. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. Significant fluctuation in the exchange rates could significantly affect the Group's financial position. The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	In Philippine peso		
	As of June 30, 2013	As of June 30, 2012	As of December 31, 2012
Cash in banks	265,654,100	620,429	472,573,537
Receivables, net	25,219,089	362,234	1,081,429
Advances to related parties	269,129,862	19,182,907	268,990,733
Advances for future subscription	-	-	200,000,000
AFS investments	73,064,652	60,773,207	75,436,653
Trade and other payables	3,954,034	1,460,580	3,173,631
Advances from related parties	7,787,346	4,920,985	7,705,104
Income tax payable	17,468	-	17,468
Interest bearing loan and borrowings	593,733	-	952,533
	645,420,284	87,320,342	1,029,931,088

Starting January 1, 2013. The group's Functional and Presentation currency are stated in Philippine Pesos.

#### Capital risk management

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group manages its capital structure (total equity) and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust or delay the

dividend payment to shareholders, and appropriate a percentage of retained earnings towards expansion and capital expenditures.

There were no changes in the Group's approach to capital management during the period. The Group is not subject to externally imposed capital requirements.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is equivalent to total liabilities as shown in the consolidated statement of financial position. Total equity comprises all components of equity including share capital, additional paid-in capital and retained earnings.

	In Philippine peso		
	As of June 30, 2013	As of June 30, 2012	As of December 31, 2012
Debt	12,352,581	6,381,565	11,848,736
Equity	1,414,169,477	389,827,811	1,340,195,624
Debt to Equity	0.00873487	0.01637021	0.00884105

#### NOTE 6 - SEGMENT REPORTING

The CEO is the Company's chief operating decision-maker. Management has determined the operating segments based on the reports reviewed by the CEO that are used to make strategic decisions.

The Group has two significant operating subsidiaries which constitute the main segments of the Group: logistics in the Philippines of semiconductors and electronic products which is undertaken by MSPI, and worldwide sales and marketing of products produced by MSPI which is undertaken by MSI. Information relating to these two segments is shown below.

The CEO assesses the performance of the operating segments based on a measure of Earnings Before Interests, Taxes and Depreciation and Amortization (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from the operating segments and common operating expenses. Transfer prices between segments are on an arm's length basis in a manner similar to transactions with third parties.

##### *Segment assets and liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables and inventories. Segment liabilities include all operating liabilities and consist principally of trade and other payables.

##### *Segment transactions*

Segment sales, expenses and performance include sales and purchases with third parties. Intercompany loans between segments, if any, are eliminated during the preparation of the Group's consolidated financial statements.

The segment information provided for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Holding			Renewable energy system		
	In Philippine peso			In Philippine peso		
	2012	2011	2010	2012	2011	2010
Sales	-	-	-	-	-	-
Cost of Sales	-	-	-	-	-	-
Share in income of an associate	5,488,876	266,228	-	-	-	-
Other operating income	3,948,251	-	4,352,468	-	-	-
Administrative expenses	(18,999,280)	(3,934,699)	(8,806,555)	(1,201,649)	-	-
Other operating expense	(19,608,630)	(168,431,264)	(23,101,805)	-	-	-
Finance income	2,335,709	8,580	45,380	279	-	-
Finance costs	-	(69,511)	-	-	-	-
Provision for income tax	(17,468)	-	(2,481)	-	-	-
Profit (loss) for the year	(26,852,542)	(172,160,666)	(27,512,993)	(1,201,370)	-	-
Finance costs	-	69,511	-	-	-	-
Provision for income tax	17,468	-	2,481	-	-	-
Depreciation	512,978	368,185	-	-	-	-
EBITDA	(26,322,096)	(171,722,970)	(27,510,512)	(1,201,370)	-	-

	Waste management			Logistics		
	In Philippine peso			In Philippine peso		
	2012	2011	2010	2012	2011	2010
Sales	-	-	-	-	5,112,234	7,633,689
Cost of Sales	-	-	-	-	(7,311,160)	(8,289,584)
Share in income of an associate	-	-	-	-	-	-
Other operating income	-	-	-	-	-	4,856,871
Administrative expenses	(56,381)	-	-	-	(6,532,263)	(12,810,026)
Other operating expense	-	-	-	-	(34,176,851)	(2,865,594)
Finance income	838	-	-	-	-	2,166
Finance costs	-	-	-	-	-	(358,216)
Provision for income tax	25,501	-	-	-	-	-
Profit (loss) for the year	(30,042)	-	-	-	(42,908,040)	(11,830,694)
Finance costs	-	-	-	-	-	358,216
Provision for income tax	(25,501)	-	-	-	-	-
Depreciation	-	-	-	-	-	-
EBITDA	(55,543)	-	-	-	(42,908,040)	(11,472,478)



	Trading			Total		
	In Philippine peso			In Philippine peso		
	2012	2011	2010	2012	2011	2010
Sales	-	23,847,130	30,528,847	-	28,959,364	38,162,536
Cost of Sales	-	(5,609,758)	(2,523,707)	-	(12,920,918)	(10,813,291)
Share in income of an associate	-	-	-	5,488,876	266,228	-
Other operating income	-	-	18,958,570	3,948,251	-	28,167,909
Administrative expenses	-	(10,371,964)	(16,689,148)	(20,257,310)	(20,838,926)	(38,305,729)
Other operating expense	-	(53,760,300)	2,865,594	(19,608,630)	(256,368,415)	(23,101,805)
Finance income	-	-	-	2,336,826	8,580	47,546
Finance costs	-	-	-	-	(69,511)	(358,216)
Provision for income tax	-	(3,619,305)	(5,654,050)	8,033	(3,619,305)	(5,656,531)
Profit (loss) for the year	-	(49,514,197)	27,486,106	(28,083,954)	(264,582,903)	(11,857,581)
Finance costs	-	-	-	-	69,511	358,216
Provision for income tax	-	3,619,305	5,654,050	(8,033)	3,619,305	5,656,531
Depreciation	-	-	-	512,978	368,185	-
EBITDA	-	(45,894,892)	33,140,156	(27,579,009)	(260,525,902)	(5,842,834)

The income (loss) for the year of the two segments (logistics and trading) was included in the consolidated statements of loss as a loss from discontinued operation.

The segment assets and liabilities as of the years ended December 31, 2012 and 2011 are as follows:

	Holding			Renewable energy system		
	As of December 31 In Philippine Peso			As of December 31 In Philippine Peso		
	2012	2011	2010	2012	2011	2010
Segment assets	1,737,072,919	336,983,494	318,472,874	84,929	-	-
Segment liabilities	12,521,652	2,713,237	16,216,748	36,299	-	-

	Waste management			Logistics		
	As of December 31 In Philippine Peso			As of December 31 In Philippine Peso		
	2012	2011	2010	2012	2011	2010
Segment assets	235,430,450	-	-	-	-	34,210,861
Segment liabilities	301,280	-	-	-	-	35,147,748

	Trading			Total		
	As of December 31 In Philippine Peso			As of December 31 In Philippine Peso		
	2012	2011	2010	2012	2011	2010
Segment assets	-	-	63,738,793	1,972,588,298	336,983,494	416,422,528.00
Segment liabilities	-	-	1,745,131	12,859,231	2,713,237	53,109,627.00

Segment Assets and Liabilities for the period June 30, 2013, 2012 and 2011.

	Holding (parent)			Energy system		
	For the six months ended June 30			For the six months ended June 30		
	In Philippine Peso			In Philippine Peso		
	2013	2012	2011	2013	2012	2011
Segment assets	1,229,182,463	396,355,368	469,388,126	757,700,488	-	-
Segment liabilities	1,872,879	150,936	26,667,053	9,379,898	-	-

	Waste management			Manufacturing		
	For the six months ended June 30			For the six months ended June 30		
	In Philippine Peso			In Philippine Peso		
	2013	2012	2011	2013	2012	2011
Segment assets	238,308,445	235,404,111	-	38,294,342	-	-
Segment liabilities	3,302,711	289,900	-	10,563,998	-	-

	Total		
	For the six months ended June 30		
	In Philippine Peso		
	2013	2012	2011
Segment assets	2,263,485,739	631,759,479	469,388,126
Segment liabilities	25,119,486	440,836	26,667,053

The assets and liabilities of the logistics and trading segments were no longer consolidated since as of December 31, 2012 they are no longer part of the Group.

The Group does not have revenues from transactions with a single external customer amounting to ten percent (10%) or more of the Group's total revenues.

**NOTE 7 - CASH ON HAND AND IN BANKS**

The account consists of:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Cash on hand	50,000	50,000	50,000
Cash in banks	265,654,100	620,429	472,573,537
	265,704,100	670,429	472,623,537

Cash in banks earn interest based on the banks' daily average deposit rates. Finance income from bank deposits amounted to P1,307,568 as of June 30, 2013.

**NOTE 8 - RECEIVABLES, NET**

The account consists of:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Advances to officers and employees	15,226,722	329,586	345,323
Trade Receivables and deposits	8,948,733	-	-
Others	137,841,825	136,830,839	10,930,934
	162,017,280	137,160,425	11,276,257
Allowance for impairment loss	(136,798,191)	(136,798,191)	(10,194,828)
	25,219,089	362,234	1,081,429

In 2011, the Parent Company sold its ownership interest from its foreign subsidiaries including all its rights, interest and obligations (Note 15). In connection with the sale, MSPI issued a three (3) year convertible bond in favor of the Parent Company in the amount equivalent to P118,580,000 and shall also cause payments equivalent to two percent (2%) of net sales on all its existing products payable at the end of each month.

Other receivables also include receivable from Lodestar Investment Holding Corporation (Lodestar) amounting P10,204,826.38 as of December 31, 2012.

All of the Parent Company's receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and losses have been recognized accordingly.

**AGING OF RECEIVABLES**

As of June 30, 2013

	0-30	>30-60	>60	more than 60 days	Total
	In Php	In Php	In Php	In Php	In Php
Advances to officers and employees	15,226,722	-	-	-	15,226,722
Trade Receivables and deposits	8,948,733	-	-	-	8,948,733
Others	-	-	-	137,841,825	137,841,825
	24,175,455	-	-	137,841,825	162,017,280
Allowance for Impairment loss	-	-	-	(136,798,191)	(136,798,191)
	24,175,455	-	-	1,043,633	25,219,089

**NOTE 9 - AVAILABLE-FOR-SALE (AFS) INVESTMENTS, NET**

The account consists of the following:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
At January 01	75,436,653	-	-
Additions	37,588,705	60,773,207	84,142,533
Disposals	-	-	-
Fair value reserve	(39,960,706)	-	(8,705,880)
Balance at the end of period	73,064,652	60,773,207	75,436,653

AFS investment as of June 30, 2013 includes 12,706,707 shares of stock of Agrinurture Inc., a related party company listed in the Philippine Stock Exchange (PSE). The designation as AFS was chosen as these investments are expected to be held at a long-term for strategic purposes. The fair value of the AFS investments has been determined based on the quoted amount per PSE as of June 30, 2013.

Movement in fair value reserves are as follows:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
At January 01	(8,705,880)	-	
Net change in fair value of AFS investment	(31,254,826)	-	(8,705,880)
Net change in fair value of AFS investment transferred to profit or loss	-	-	-
	(39,960,706)	-	(8,705,880)

#### NOTE 10 - ADVANCES FOR FUTURE STOCK SUBSCRIPTION

On December 4, 2012, the Company entered into an investment agreement with San Carlos BioPower, Inc. (SCB) under which the Company shall acquire a 64% equity interest in SCB for a total consideration of P667,527,300. In December, the Company advanced to SCB an amount of P200,000,000 as part of the agreed investment in SCB to support the construction of the 18 megawatt bagasse-fired power generation project in San Carlos City, Negros Occidental. As of December 31, 2012, the application for the increase in authorized capital stock has not yet been approved by the SEC, hence the advance was recorded as advances for future stock subscription.

On March 19, 2013, the company paid the balance of P457,527,300 in Equity interest to SCBI.

#### NOTE 11 - PREPAYMENTS AND OTHER CURRENT ASSETS, NET

The account consists of:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Input value added tax (VAT)	1,309,779	222,821	1,303,566
Prepaid tax	295,921	157,190	157,230
Others	7,248,277	965,164	3,127,758
	8,853,978	1,345,175	4,588,554
Allowance for impairment loss	(943,338)	(943,338)	(943,338)
	7,910,639	401,837	3,645,216

Allowance for impairment losses pertains to allowance on input VAT amounted to P943,338 as of June 30, 2013.



Movement in allowance for impairment losses are as follows:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
At January 01	943,338	943,338	943,338
Provision for impairment loss	-	-	-
Effect of exchange rate	-	-	-
	<u>943,338</u>	<u>943,338</u>	<u>943,338</u>

#### NOTE 12 - DISCONTINUED OPERATIONS

On December 23, 2010, the stockholders approved the divestment of 61% interest or from 100% to 39% interest, in MSPI and all of its interests in MSI, Musem and Protelcon, companies engaged in semiconductor business, since it is not aligned with the direction of the Group which is to explore areas in the field of renewable energy. The divestment was finalized on July 27, 2011.

The operations of these subsidiaries were presented as discontinued operation in the consolidated statements of loss. The details are as follows:

	In Philippine Peso (Presentation Currency)	
	June 30, 2011	December 31, 2010
Sales	P28,959,364	P38,162,536
Cost of sales	(12,920,918)	(10,813,291)
Gross profit	16,038,446	27,349,245
Operating expenses	(16,904,227)	(29,499,174)
Other income (expenses)	-	23,815,441
Operating profit (loss)	(865,781)	21,665,512
Finance income	-	2,166
Finance cost	-	(358,216)
Impairment loss recognized on the disposal of subsidiaries constituting the discontinued operation	(87,937,151)	-
Income (loss) before tax from a discontinued operation	(88,802,932)	21,309,462
Provision for income tax	(3,619,305)	(5,654,050)
Income (loss) for the year from a discontinued operation	<u>(P92,422,237)</u>	<u>P15,655,412</u>

The net cash flows incurred by disposed subsidiaries are as follows:

	In Philippine Peso	
	2011	2010
Operating	158,169,729	(9,993,671)
Investing	3,958,075	(12,578,075)
Financing	(73,588,621)	265,150
Net cash inflow (outflow)	<u>88,539,183</u>	<u>(22,306,596)</u>

Income (loss) per share:

	In Philippine Peso	
	2011	2010
Income (loss) from discontinued operations	(92,422,237)	15,655,412
Weighted average number of shares outstanding	58,771,333,583	35,791,666,667
	<u>(0.001573)</u>	<u>0.000437</u>

There are no dilutive potential ordinary shares for the years ended December 31, 2011 and 2010. Therefore, the Group's basic and diluted loss per share from discontinued operation for the years ended December 31, 2012 and 2011 are equal.

#### NOTE 13 - LOANS RECEIVABLE

On December 6, 2007, the Group's stockholders ratified the October 26, 2007 BOD Resolution approving the 2007 Purchase Plan. The Purchase Plan was established to promote the interests of the Group by providing a mechanism whereby the Group's and its subsidiaries' employees and BOD (the Eligible Members) may borrow money from the Group for the purpose of acquiring up to 10% of the total issued shares of the Group or about 123.2 million shares at prevailing market price. Under the stock purchase plan, the Group will grant interest bearing loans to the Eligible Members payable over five years. The shares to be acquired by the Eligible Members will be held as collateral for the loan and will only be released to them after the loan is repaid. A portion of the collateralized shares can be released to the extent of the paid amount of the loan at an agreed date. The Group filed the Purchase Plan with the SEC on April 14, 2008 and was approved on June 24, 2008. The application for the listing of shares with PSE will take place once all the requirements are in place.

Loans receivable amounted to P8,023,363 in June 30, 2013 and December 31, 2012. The Group's management provided a full allowance for impairment as they believe that the receivables are not recoverable.

The details of the allowance for impairment loss are as follows:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
At January 01	8,023,363	-	-
Provision for impairment loss	-	-	8,023,363
Effect of exchange rate	-	-	-
Allowance for impairment loss	8,023,363	-	8,023,363

#### NOTE 14 - ADVANCES TO PROJECTS

On August 31, 2011, the BOD proposed the project with Tianjin Tianbao Investment and Development (TTIDC), to develop a wind energy projects in the Philippines (Note 1). The Parent Company made additional advances for various projects increasing the account balance to P101,733,533, P20,728,692 and P7,769,466 as of June 30, 2013, 2012 and December 31, 2012 respectively.

Advances to projects	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Winsun Green Ventures, Inc.	84,600,000	-	-
Isabela AlcoGas Corporation	10,000,000	-	-
Others (Tianjin Tianbao Investment)	7,133,533	20,728,692	7,769,466
	101,733,533	20,728,692	7,769,466

As at June 30, 2013, the contract for joint venture agreement is not yet executed.

## NOTE 15 - INVESTMENT IN ASSOCIATE

The details of the account are as follows:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Investment in MSPI	60,724,640	58,927,607	64,505,614
Investment in Isabela Aicogas Corporation	-	-	24,653,791
Effect of foreign rates	-	-	(3,434,765)
	<u>60,724,640</u>	<u>58,927,607</u>	<u>85,724,640</u>

During the annual stockholders' meeting held on December 23, 2010, approved the growth strategy of the Group to retain an interest in its semiconductor business, MSPI, and divest 61% interest therein, as well as divest all interests in the foreign subsidiaries, namely MSI, Musem and Protelcon.

The cost of investment in MSPI was determined using the carrying values of net assets at June 30, 2013 as follows:

	In Philippine peso
<i>Carrying value</i>	
Assets	222,958,273
Liabilities	(41,389,157)
Net Asset	<u>181,569,116</u>
Percentage of ownership	39%
	<u>58,661,379</u>

On July 27, 2011, the Parent Company waived the pre-emptive right to subscribe to the issuance of shares of MSPI in relation to divestment of sixty one percent (61%) interest therein as approved by the stockholders on December 23, 2010, leaving the Parent Company a thirty-nine percent (39%) interest as of December 31, 2011.

The Company's equity share in profit or loss is base on the period when the investment in MSPI was established. Stated below are the details of the account:

### In Philippine Peso (Functional and Presentation Currency)

	In Philippine Peso	
	Audited	
	June 30, 2013	December 31, 2012
Beginning balance	61,183,634	58,927,607
Equity share in profit or loss for the period	211,942	5,578,007
Effect of foreign rates	-	(3,321,980)
	<u>61,395,576</u>	<u>61,183,634</u>

The aggregate amounts of current assets, noncurrent assets, current liabilities, noncurrent liabilities, income and expenses related to the Group's interests in its associate as of June 30, 2013 and December 31, 2012 and 2011 are as follows:

	In Philippine Peso		
	June 30, 2013	December 31, 2012	December 31, 2011
	MSPI	MSPI	MSPI
Current assets	16,876,963	19,516,664	9,898,999
Noncurrent assets	206,081,309	195,067,923	213,767,442
Current liabilities	(2,042,256)	(42,154,617)	(54,935,742)
Net assets	<u>220,916,016</u>	<u>172,429,970</u>	<u>168,730,699</u>
Income	3,600,757	46,688,974	58,384,197
Expenses	(3,057,315)	(32,386,391)	(57,018,925)
Profit after tax	<u>543,442</u>	<u>14,302,583</u>	<u>1,365,272</u>

The Group has not provided any allowance for impairment on investment as management believes that amount corresponds to fair value.

On June 30, 2012, the Board of Directors of the Parent Company has approved the subscription to P25,000,000 worth of common shares of IAC which is equivalent to 50% interest therein. The Subscription Agreement representing the subscription of the Parent Company to the common shares of IAC was executed on October 1, 2012.

The Company's equity share in profit or loss is base on the period when the investment in IAC was established. As of June 30, 2013 Isabela Alcolgas Corporation is classified as a manufacturing subsidiary.

#### NOTE 16 - PROPERTY AND EQUIPMENT, NET

The detail of this account is as follows:

	In Philippine Peso						Total
	Transportation equipment	Machinery and office equipment	Tools & Miscellaneous Equipment	Construction-in-progress	Office Furniture & Fixtures	Leasehold Improvements	
<b>Cost</b>							
At January 01, 2012	2,445,490	27,316	-	-	-	-	2,472,806
Additions	-	67,010	8,037	235,000,000	19,194	-	235,094,241
Effect of foreign rates	(152,314)	(32,775)	-	-	-	-	(185,089)
At December 31, 2012	2,293,176	61,550	8,037	235,000,000	19,194	-	237,381,958
Additions	50,751,715	185,819	-	330,934,627	3,608,941	326,986	385,808,087
At June 30, 2013	53,044,891	247,369	8,037	565,934,627	3,628,135	326,986	623,190,045
<b>Accumulated Depreciation</b>							
At January 01, 2012	366,826	1,361	-	-	-	-	368,187
Depreciation	489,098	8,292	-	-	2,907	-	500,297
At December 31, 2012	855,924	9,653	-	-	2,907	-	868,484
Depreciation	1,248,926	10,862	-	-	39,266	23,374	1,322,428
At June 30, 2013	2,104,850	20,515	-	-	42,172	23,374	2,190,912
<b>Net book value</b>							
At June 30, 2013	50,940,041	226,854	8,037	565,934,627	3,585,963	303,612	620,999,133
At December 31, 2012	1,437,252	51,897	8,037	235,000,000	16,288	-	236,513,474

The Group's transportation equipment serves as collateral for the interest-bearing loan. Interest rate of the loan is 5.51% per annum (Note 18).

Depreciation expense of P1,322,428 and P500,297 had been charged in administrative expenses (Note 22) for the period June 30, 2013 and December 31, 2012.

There are no fully depreciated property and equipment as of June 30, 2013 and 2012 that are still being used in operations.

Management has reviewed the carrying values of the Group's property and equipment as of June 30, 2013 and 2012 for impairment. Based on the results of its evaluation, there were no indications that the property and equipment were impaired.

The Group's construction-in-progress represents machineries under construction of "Waste Recycling Project" and is stated at cost. As at June 30, 2013, the percentage of completion of the project is 66%, as certified by A.V.M. Bernardo Engineering, an independent contractor.



**NOTE 17 - TRADE AND OTHER PAYABLES**

The account consists of:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Trade payables	2,268,078	-	11,391
Government liabilities	52,416	9,690	863,528
Professional fees	-	-	240,673
Salaries and employee benefits	450,000	100,000	300,000
Accrued Expenses	861,397	761,126	-
Advances	-	-	-
Other payables	322,142	589,764	1,758,039
	<u>3,954,034</u>	<u>1,460,580</u>	<u>3,173,631</u>

Professional fees pertain to accrual for audit and legal fees.

Salaries and employees benefits pertain to accrual for salaries and employee benefits of employees.

Government dues and remittances represent contributions of employees that will be remitted to various government agencies such as SSS, Philhealth and Pag-ibig. It also includes taxes withheld from salaries of employees and income payment to suppliers, which will be remitted in the subsequent month.

Other payables include accrual of travel expenses, communication expenses and other operating expenses payable upon demand.

**NOTE 18 - INTEREST-BEARING LOANS AND BORROWINGS**

The details of the account are as follows:

	Term Collateral (years)	Denomination	Maturity	Annual interest rate	In Philippine Peso		
					For the six months ended June 30		Audited
					2013	2012	December 31, 2012
Philippine Business Bank (PBB)	Chattel mortgage 3	Philippine Peso	6/6/2014	5.51%	593,733	-	952,533

The loan from PBB is secured with the Group's transportation equipment with net book value of P1,322,596 and P1,437,254 as of June 30, 2013 and December 31, 2012 respectively. (Note 16).

## NOTE 19 - SHARE CAPITAL

The account consists of:

### In Philippine Pesos

	Shares				Amount		
	Six months ended June 30		2011	Audited December 31, 2012	Six months ended June 30		2011
	2013	2012			2013	2012	
<b>Authorized</b>							
At January 01	200,000,000,000	100,000,000,000	100,000,000,000	100,000,000,000	2,000,000,000	1,000,000,000	1,000,000,000
Shares split up from P0.10 par value to P0.01 par value	-	-	-	-	-	-	-
Cancellation of original P0.10 par value shares authorized	-	-	-	-	-	-	-
Increase in authorized capital during the year at P0.01 per share	-	100,000,000,000	-	100,000,000,000	-	1,000,000,000	-
	<u>200,000,000,000</u>	<u>200,000,000,000</u>	<u>100,000,000,000</u>	<u>200,000,000,000</u>	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>1,000,000,000</u>
<b>Issued and Outstanding</b>							
At January 01	142,852,856,500	69,376,000,500	5,000,000,000	69,376,000,500	1,428,528,565	572,010,005	308,750,000
Share split up during the year	-	-	45,000,000,000	-	-	-	-
Cancellation of original P0.10 par value shares authorized	-	-	-	-	-	-	-
Additional shares issued during the year	30,100,000,000	25,000,000,000	13,876,000,500	73,476,856,000	301,000,000	62,500,000	129,768,005
Reclassification during the period	-	-	-	-	-	62,500	-
	<u>172,952,856,500</u>	<u>94,376,000,500</u>	<u>63,876,000,500</u>	<u>142,852,856,500</u>	<u>1,729,528,565</u>	<u>584,572,505</u>	<u>438,510,005</u>
Subscription receivable	-	-	-	-	(660,250,000)	-	-
	<u>172,952,856,500</u>	<u>94,376,000,500</u>	<u>63,876,000,500</u>	<u>142,852,856,500</u>	<u>1,269,278,565</u>	<u>584,572,505</u>	

On March 8, 2012, the SEC approved the increase in authorized capital stock from P1,000,000,000.00 divided into 100,000,000,000 shares with the par value of P0.01 each to P2,000,000,000.00 divided into 200,000,000,000 shares with a par value of P0.01 each.

On March 30, 2011, the BOD approved the application of 10-for-1 stock split-up and increase in capital stocks from P500,000,000 divided into 5,000,000,000 shares with par value of P0.10 each, to P1,000,000,000 divided into 100,000,000,000 shares with par value of P0.01 each. The said application was approved by SEC on June 22, 2011.

After the SEC approval, the 5,000,000,000 issued shares at par value of P0.10 were cancelled and were replaced by the issuance of 50,000,000,000 shares at P0.01 par value. In addition, the 19,376,000,500 shares at P0.01 par value were issued.

For the six months period ending June 30, 2013, the Parent Company received subscriptions amounting to P301,000,000 for 30,100,000,000 shares. Paid-up capital in relation to the new subscription amounted to P169,000,000 while P132,000,000 were added to the subscription receivable. The Parent Company has received subscriptions in 2012 from various private placement investors with total subscription price amounting to P942,537,120, wherein portion amounting to P207,768,560 were treated as share premium during the year.

**NOTE 20 - SHARE PREMIUM**

This account includes any excess amount received in the initial issuances of share capital with account balance of P268,090,531, P60,321,971 and P268,090,531 as of June 30, 2013, 2012 and December 31, 2012 respectively.

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Share premium on issuance of shares	268,090,531	60,321,971	268,090,531
	268,090,531	60,321,971	268,090,531

**NOTE 21 - OTHER OPERATING INCOME**

The account consists of:

	In Philippine Peso		
	Six months ending June 30		
	2013	2012	2011
Finance Income	1,307,568	-	7,277
	1,307,568	-	7,277

	In Philippine Peso		
	Three months ending June 30		
	2013	2012	2011
Finance Income	35,511	-	7,277
	35,511	-	7,277

**NOTE 22 - GENERAL AND ADMINISTRATIVE EXPENSES**

The account consists of:

	In Philippine Peso		
	For the six months ending June 30		
	2013	2012	2011
Taxes and licenses	47,130	6,622	754,497
Stock transfer and listing cost	1,598,375	4,831,740	-
Transportation and travel	215,555	436,137	40,304
Salaries and employee benefits	1,110,202	704,625	7,161,653
Depreciation	1,322,429	4,729	316,060
Representation and entertainment	156,910	263,689	18,387
Professional fee	50,230	414,750	128,147
Pre operating expenses	22,453,950	-	-
Repairs and maintenance	283,885	27,715	2,756
Separation pay	150,000	-	-
Communication, light and water	225,616	73,739	215,085
Office supplies	103,878	55,700	24,071
SSS, Philhealth, HDMF and other contribution	62,853	-	-
Fuel and oil	5,175	-	-
Other Expenses	617,461	-	-
Web hosting	-	37,054	-
Rental	36,000	-	452,905
Other outside services	43,000	-	2,785,207
Advertising	85,000	21,589	606,586
	28,567,648	6,878,089	12,505,658

	In Philippine Peso		
	For the three months ending June 30		
	2013	2012	2011
Taxes and licenses	-	-	728,783
Stock transfer and listing cost	1,105,200	274,460	-
Transportation and travel	11,684	229,266	25,813
Salaries and employee benefits	564,014	373,639	2,465,058
Depreciation	1,171,019	2,365	156,495
Representation and entertainment	47,241	97,536	18,387
Professional fee	-	414,750	128,147
Pre operating expenses	11,155,659	-	-
Repairs and maintenance	10,045	27,715	778
Separation pay	75,000	-	-
Communication, light and water	192,792	57,914	72,068
Office supplies	63,011	28,137	8,542
SSS, Philhealth, HDWF and other contribution	36,310	-	-
Fuel and oil	1,637	-	-
Other Expenses	616,083	-	-
Web hosting	-	21,429	-
Rental	18,000	-	196,704
Other outside services	43,000	-	2,191,117
Advertising	85,000	3,806	606,586
	<b>15,195,694</b>	<b>1,531,017</b>	<b>6,598,478</b>

#### NOTE 23 - OTHER COMPREHENSIVE INCOME/(LOSS)

The account consists of:

	In Philippine Peso		
	Six months ending June 30		
	2013	2012	2011
Provision for impairment loss on advances to related party	-	-	-
Provision for impairment loss on investment in associate	-	-	-
Loss on disposal of AFS investment	-	-	-
Provision for impairment loss on receivables	-	-	-
Provision for impairment loss on loans receivables	-	-	-
Foreign exchange loss	-	-	-
Provision for impairment loss on prepayment and other current assets	-	-	-
Net change in fair value of AFS investment others	(39,960,706)	-	-
	-	513	(5,787,307)
	<b>(39,960,706)</b>	<b>513</b>	<b>(5,787,307)</b>

#### NOTE 24 - RELATED PARTY TRANSACTIONS

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.



(a) Name and relationship of related parties

Name of related party	Related party relationship	Nature of relationship	Country of incorporation
MSPI	Associate	Logistic and manufacturing	Philippines
Isabela Alcogas	Subsidiary	Manufacturing	Philippines
Earthright Holdings Inc.	Shareholder	Holding	Philippines
Cleantech	Shareholder	Shareholder	
Sunchamp real estate	Under common control	Real estate	Philippines
Total waste	Subsidiary	Waste Management	Philippines
Winsun	Subsidiary	Renewable energy system	Philippines
Biomass/San Carlos	Subsidiary	Holding	Philippines

(b) The Group grants to and obtains unsecured and noninterest-bearing cash advances to and from certain related parties for working capital purposes which are currently due and demandable.

The outstanding balances and significant transactions with related parties as of June 30, 2013, 2012 and December 31, 2012 are as follows:

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
Advances to related parties			
Associate			
MSPI	39,677,922	39,677,922	39,677,922
Other related party			
Cleantech	267,014,920	-	267,014,740
Spring Lover	49,610	-	49,610
Sunchamp	108,972	-	6,150
EHI	4,555	-	4,055
Others	1,951,804	55,760	1,916,178
	308,807,784		308,668,655
Allowance for impairment	(39,677,922)	(20,550,775)	(39,677,922)
	269,129,861	19,182,907	268,990,733

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
At January 01	39,677,922	20,550,775	20,550,775
Provision for impairment loss	-	-	19,608,630
Effect of exchange rate	-	-	(481,483)
	39,677,922	20,550,775	39,677,922

The Group has provided an allowance for impairment loss on receivables relating to the amounts owed by the related parties amounting to P19,608,630 as of December 31, 2012.

	In Philippine Peso		
	For the six months ended June 30		Audited
	2013	2012	December 31, 2012
At January 01	39,677,922	20,550,775	20,550,775
Provision for impairment loss	-	-	19,608,630
Effect of exchange rate	-	-	(481,483)
	<u>39,677,922</u>	<u>20,550,775</u>	<u>39,677,922</u>

(c) Key management compensation

There has been no short-term or long-term compensation of key management personnel for the period ended June 30, 2013 and 2012.

**NOTE 25 - INCOME TAXES**

The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of comprehensive income (loss) as follow:

The Group has recognized deferred tax assets related on NOLCO amounted to P80,205 and nil as of December 31, 2012, 2011 and 2010 respectively.

	In Philippine Peso		
	December 31		
	2012	2011	2010
Income tax computed at normal rate of 30%	(8,425,186)	(51,648,200)	(8,253,153)
Non-taxable income subjected to different tax rate	(701,047)	(2,574)	(13,605)
Share in profit of an associate	(1,646,663)	(79,868)	-
Non-deductible expenses	128,615	39,948	86
Prior year unrecognized deferred taxes on temporary differences realized this year	-	725,120	1,435,747
Unrecognized deferred taxes on temporary differences	4,960,134	47,023,715	6,052,638
Unrecognized deferred tax asset o NOLCO	5,658,646	3,941,859	778,287
Unrecognized MCIT	17,468	-	2,481
	<u>(8,033)</u>	<u>-</u>	<u>2,481</u>

The details of NOLCO and MCIT are as follows:

**A. Unrecognized NOLCO**

In Philippine Peso (Functional and Presentation Currency)					
Year incurred	Beginning balance	Incurred this year	Expired	Ending balance	Expiry year
2012	-	18,983,279	-	18,983,279	2015
2011	13,139,529	-	-	13,139,529	2014
2010	2,594,290	-	-	2,594,290	2013
2009	23,636,774	-	(23,626,774)	-	2012
2008	10,912,748	-	(10,912,748)	-	2011
	<b>50,283,341</b>	<b>18,983,279</b>	<b>(34,539,522)</b>	<b>34,717,098</b>	

**B. Recognized NOLCO**

In Philippine Peso (Functional and Presentation Currency)					
Year incurred	Beginning	Addition	Application/ Expired	Balance	Expiry year
2012	-	85,003	-	85,003	2015
2011	182,347	-	-	182,347	2014
	<b>182,347</b>	<b>85,003</b>	<b>-</b>	<b>267,350</b>	

**B. MCIT**

In Philippine Peso (Functional and Presentation Currency)					
Year incurred	Beginning balance	Incurred this year	Written-off	Ending balance	Expiry year
2012	-	17,468	-	17,468	2015
2011	58,527	-	-	58,527	2014
	<b>58,527</b>	<b>17,468</b>	<b>-</b>	<b>75,995</b>	

**NOTE 26 - LOSS PER SHARE**

Basic loss per share amounts was calculated by dividing the loss for the year by the weighted average number of ordinary shares outstanding during the year.

The financial information pertinent to the derivation of the basic loss per share for the period June 30, 2013, 2012 and 2011 are as follows:

	In Philippine Peso		
	As of June 30		
	2013	2012	2011
Profit/(Loss) for the period	(27,165,229)	(6,877,576)	(4,633,413)
Divide by weighted average number of share outstanding	154,202,856,500	86,042,667,167	52,312,666,750
	<b>(0.0001762)</b>	<b>(0.0000799)</b>	<b>(0.0000886)</b>

	In Philippine Peso		
	As of December 31		
	2012	2011	2010
Profit/(Loss) for the period	(28,083,953)	(264,582,903)	11,857,580
Divide by weighted average number of share outstanding	95,099,071,834	58,771,333,583	35,791,666,667
	(0.0002953)	(0.0045019)	0.0003313

There are no dilutive potential ordinary shares for the years ended December 31, 2012, 2011 and 2010. Therefore, the Group's basic and diluted loss per share for the years ended December 31, 2012, 2011 and 2010 is equal.

The reconciliation of the average number of shares outstanding as of June 30, 2013 and 2012 is as follows:

June 30, 2013			
Date	Number of shares issued	Number of shares outstanding	Weighted average number of shares
January 1, 2013	142,852,856,500	142,852,856,500	142,852,856,500
January 23, 2013	8,500,000,000	8,500,000,000	7,083,333,333
May 2, 2013	4,000,000,000	4,000,000,000	1,333,333,333
May 22, 2013	17,600,000,000	17,600,000,000	2,933,333,333
	<u>172,952,856,500</u>		<u>154,202,856,500</u>

June 30, 2012			
Date	Number of shares issued	Number of shares outstanding	Weighted average number of shares
January 01, 2012	69,376,000,500	69,376,000,500	69,376,000,500
March 8, 2012	25,000,000,000	25,000,000,000	16,666,666,667
	<u>94,376,000,500</u>		<u>86,042,667,167</u>

June 30, 2011			
Date	Number of shares issued	Number of shares outstanding	Weighted average number of shares
January 1, 2011	50,000,000,000	50,000,000,000	50,000,000,000
June 22, 2011	13,876,000,500	13,876,000,500	2,312,666,750
	<u>63,876,000,500</u>		<u>52,312,666,750</u>

December 31, 2012			
Date	Number of shares issued	Number of shares outstanding	Weighted average number of shares
January 01, 2012	69,376,000,500	69,376,000,500	69,376,000,500
March 08, 2012	25,000,000,000	25,000,000,000	18,750,000,000
July 18, 2012	2,500,000,000	2,500,000,000	1,041,666,667
October 05, 2012	25,200,000,000	25,200,000,000	4,200,000,000
November 16, 2012	20,776,856,000	20,776,856,000	1,731,404,667
	<u>142,852,856,500</u>		<u>95,099,071,833</u>



**NOTE 27 - NON-CONTROLLING INTERESTS**

Non-controlling interests represents the equity in subsidiaries not attributable directly or indirectly to the Parent Company. The details of the account are as follows:

In Philippine Peso (Functional and Presentation Currency)

June 30, 2013				
	Share in net assets	Deficits	Other	
	on acquisition/ incorporation date		comprehensive income	
			Total	
Total Waste Management Recovery Sytem, Inc.	885,168	(60,484)	-	824,685
Biomass Holdings, Inc.	260,794,313	(5,524,931)	-	255,269,382
Isabela AlcoGas Corporation	4,807,872	(317,700)	-	4,490,172
	<u>266,487,353</u>	<u>(5,903,115)</u>	<u>-</u>	<u>260,584,239</u>

June 30, 2012				
	Share in net assets	Deficits	Other	
	on acquisition/ incorporation date		comprehensive income	
			Total	
Total Waste Management Recovery Sytem, Inc.	-	(64,871)	-	(64,871)
Biomass Holdings, Inc.	-	-	-	-
	<u>-</u>	<u>(64,871)</u>	<u>-</u>	<u>(64,871)</u>

December 31, 2012				
	Share in net assets	Loss for the year	Other	
	on acquisition/ incorporation date		comprehensive income	
			Total	
Total Waste Management Recovery Sytem, Inc.	29,405,866	(14,720)	-	29,391,146
Biomass Holdings, Inc.	267,014,920	(2,018,500)	-	264,996,420
	<u>296,420,786</u>	<u>(2,033,220)</u>	<u>-</u>	<u>294,387,566</u>

Other comprehensive income pertains to net exchange difference from translation to presentation currency for the year attributable to non-controlling interests.

**NOTE 28 - BUSINESS ACQUISITIONS**

On June 13, 2011, the BOD of the Parent Company approved to acquire fifty one percent (51%) of TWMRSI, a domestic corporation engaged in the business of building, operating and managing waste recovery facilities and waste management systems within the Philippines. This was approved and ratified by the stockholders on October 19, 2011. In 2011, the Parent Company has made a total of P235,000,000 as advances for future stock subscription to TWMRSI. On March 27, 2012, the SEC approved the application for increase in authorized capital stock of TWMRSI from P1,000,000 to P2,000,000. On the same date, the Parent Company infused additional P260,204 to purchase 260,204 shares for a 51% interest in its capital stock.

	In Philippine peso
Initial consideration paid for the 51% interest in Total Waste Management Recovery System, Inc.	260,204

The following table summarizes the consideration paid for 51% of TWMRSI, the fair values of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date  
 Recognized amounts of identifiable assets acquired and liabilities assumed:

	<u>In Philippine peso</u>
Cash in bank	322,975
Prepayments	997
Property and equipment	8,036
Other non-current assets	54,704
Accrued expenses	(166,750)
Advances from related parties	(60,750)
Net identifiable assets at acquisition date	<u>159,212</u>
Non-controlling interest	(78,014)
Goodwill	179,006
Total consideration transferred	<u><u>260,204</u></u>

The purchase of TWMRSI has resulted in a goodwill which is shown in the consolidated statement of financial position as intangible asset, which was attributable entirely to the Parent Company.

On December 28, 2012, the Parent Company acquired additional 36.5% ownership or 1,489,796 shares of TWMRSI's unissued capital stock through the conversion of its P235,000,000 advances for future stock subscription. The carrying amount of TWMRSI's net assets on the date of acquisition was P235,129,170.

There were no contingent consideration arrangement and indemnification assets relating to the acquisition.

Non-controlling interests was measured at the acquisition date based on the present ownership instruments' proportionate share in the recognized amounts of TWMRSI's identifiable net assets.

Financial Soundness Indicators  
June 30, 2013, 2012 and 2011

		For the six months ended June 30		
		2013	2012	December 31, 2011
<b>i. Current/liquidity ratios</b>				
Current ratio		4597.94%	323.08%	7986.85%
Current ratio =	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{567,963,690}{12,352,581}$	$\frac{20,617,406}{6,381,565}$	$\frac{946,340,915}{11,848,736}$
Quick ratio		4533.90%	316.78%	6268.14%
Quick ratio =	$\frac{\text{Current Assets}-\text{Inventories}-\text{Prepayments}}{\text{Current Liabilities}}$	$\frac{560,053,051}{12,352,581}$	$\frac{20,215,570}{6,381,565}$	$\frac{742,695,699}{11,848,736}$
<b>ii. Solvency ratios/debt-to-equity ratios</b>				
Solvency ratio		0.00%	0.00%	-232.69%
Solvency ratio =	$\frac{\text{After tax net profit} + \text{Depreciation (Non-cash expenses)}}{\text{Total Liabilities}}$	$\frac{-}{12,352,581}$	$\frac{-}{6,381,565}$	$\frac{(27,570,975)}{11,848,736}$
Debt-to-equity-ratio		0.87%	1.64%	0.88%
Debt-to-equity ratio =	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	$\frac{12,352,581}{1,414,169,477}$	$\frac{6,381,565}{389,827,811}$	$\frac{11,848,736}{1,340,195,624}$
<b>iii. Asset-to-equity ratio</b>				
Asset-to-equity ratio		100.87%	101.64%	109.48%
Asset-to-equity ratio =	$\frac{\text{Total Assets}}{\text{Total Equity}}$	$\frac{1,426,522,058}{1,414,169,477}$	$\frac{396,209,375}{389,827,811}$	$\frac{1,467,194,360}{1,340,195,624}$
<b>iv. Interest rate coverage ratio</b>				
Interest rate coverage ratio		0.00%	0.00%	0.00%
interest rate =	$\frac{\text{Earnings before Interest and tax (EBIT)}}{\text{Interest Expense}}$	$\frac{(27,165,229)}{-}$	$\frac{(6,877,576)}{-}$	$\frac{(28,091,986)}{-}$
<b>v. Profitability ratios</b>				
Return on Equity (ROE)		-1.92%	-1.76%	-2.10%
Return on equity =	$\frac{\text{Net Profit}}{\text{Total Equity}}$	$\frac{(27,165,229)}{1,414,169,477}$	$\frac{(6,877,576)}{389,827,811}$	$\frac{(28,083,953)}{1,340,195,624}$
Gross Margin		0.00%	0.00%	0%
Gross Margin =	$\frac{\text{Gross Profit}}{\text{Revenues}}$	$\frac{-}{-}$	$\frac{-}{-}$	$\frac{-}{-}$
Net Margin		0.00%	0.00%	0%
Net Margin =	$\frac{\text{Net Profit}}{\text{Revenues}}$	$\frac{(27,165,229)}{-}$	$\frac{(6,877,576)}{-}$	$\frac{(28,083,953)}{-}$

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### Interim 2nd quarter

Cash decreased to P266 million as at June 30, 2013 from P473 million consolidated at December 31, 2012. The movement in cash is attributable to the proceeds from the issuance of shares pursuant to the 2012 approved subscription agreement with Cleantech, an investor for renewable energy projects. The decrease during the period is in relation to the investment agreement with San Carlos Biopower Inc.

Trade and Other receivables increased to P25 million in June 30, 2013 from P1.08 million as of December 31, 2012 mainly due to the funds held by officers and projects implementers not yet liquidated as of report date.

Advances to related parties increased to P269.12 million in June 30, 2013 from P268.99 million consolidated at December 31, 2012. as a result of the parent company's continuous support to its subsidiaries in terms of CAPEX and operational expenditures.

As of June 30, 2013, investment agreement pertaining to the energy projects were executed giving rise to the reclassification of deposits to equity account in the amount of P200 million plus the additional investments of P467 million or a total investment of P667 million for 64% interest in San Carlos Biopower.

Advances to projects increased to P101.7 million in June 30, 2013 from P7.7 million as at December 31, 2012, mainly due to the exploration of solar and wind energy resources.

Investment in associate decreased to P60 million in June 30, 2013 from P85 million at December 31, 2012 as a result of the consolidation of manufacturing subsidiary acquired in the latter part of 2012.

Property and equipment, net increased to P620 million in June 30, 2013 from P236 million as at December 31, 2012 mainly due to the recognition and consolidation of assets of a newly acquired subsidiary.

Trade and Other Payables increased to P3.95 million in June 30, 2013 compared to the December 31, 2012 level amounting to P3.17 million as a result of consolidation of accrued expenses and other liabilities of the Parent and newly acquired subsidiary.

Total liabilities increased to P12.35 million in June 30, 2013 from P11.85 in December 31, 2012 due to the liabilities brought in by the new subsidiaries assumed by the group net of the payment for interest bearing loans and borrowings.

Share capital increased to P1,269,278,565 in June 30, 2013 from P1,100,278,565 at the end of 2012 due to the issuance of shares to private investors.

Revenue during the period is composed mostly with interest income from funds deposited with the banks. The Company did not recognize sales revenue for the 2nd quarter of 2013 considering the current operational level of the subsidiary company as of the period. This is a 100 percent downtrend as compared to the same period in 2011 and in 2010 where the company recognized net sales taken from the divested subsidiaries.

Operating expenses during the period January to June 2013, (year to date in the 2nd quarter 2013) totaled to P28,567,649 composed mainly of the pre-operating expenses of newly acquired subsidiary, general and administrative expenses, stock transfer maintenance and listing fees plus documentary stamp taxes recorded during the period. A significant increase from P6,878,089 and P12,505,664 million for the same period in 2012 and 2011 respectively.

Operating expenses for the three month period April to June 2013, (2nd quarter 2013) totaled to P15,195,695 composed mainly of the pre-operating expenses of newly acquired subsidiary, general and administrative expenses, stock transfer maintenance and listing fees plus documentary stamp taxes recorded during the period. A significant increase from P1,531,017 and P6,598,478 million for the same period in 2012 and 2011 respectively.



**Discussion and Analysis of Material Events and/or Uncertainties Known to Management.**

**a. Any known trend, demand, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.**

The Company's fund raising activities and ventures into other fields of business opportunities, the renewable energy among them, will contribute to a certain extent to the level of its liquidity.

**b. Any event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.**

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

**c. All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

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

**d. Any material commitment for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.**

The Company has no firm material commitment for capital expenditures.

**e. Any known trend, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.**

- Revenue levels meet or exceed P200 million per year

This minimum requirement challenge remains difficult to achieve. The partial spin-off of the semiconductors business and the Company's ventures into other fields, the renewable energy among them, will contribute to a great extent in enabling Management to grow the business, initially up to these minimal levels.

- Timely and efficient fund raising for new products and business ventures

Meeting the funding requirements for the Company's products and business ventures is critical for the future growth potential of the Company.

**f. Any significant element of income or loss that did not arise from the issuer's continuing operations.**

There are no significant elements of income or loss that did not arise from the issuer's continuing operations.

**g. The causes for any material change from period to period.**

The total assets of the Company as of June 30, 2013 were P1,426,522,058, creating a net increase by P74,477,698 from P1,352,044,360 as of December 31, 2012. This increase is attributed to the cash generated from the issuance of new shares to private investors subsequently used to finance investments and projects and increase property and equipment in non-current assets consolidated from the newly acquired subsidiary.

In the current assets section, the decrease in cash to P265 million and decrease in advances for future subscription to nil in June 30, 2013 from that of P235 million from the December 31, 2011 level of consolidated financial report were the result of continuing investment and exploration of new projects. The increase in cash to P472.62 million as at December 31, 2012 level is attributable to the proceeds on the issuance of shares from foreign investors interested in renewable energy. The increase in deposit for

future subscription in 2012 of P235 million was for the undertaking of a project with Total Waste Management Recovery System, Inc., one that is aimed to promote better, efficient, hygienic and economical collection, segregation, recycling, composting, filling, disposing, treating and managing of household, office, commercial and industrial garbage and waste products; and in the process, facilitate the extraction of renewable energy from biomass and production of organic fertilizer.

Still in the current assets section, the increase in trade and other receivables to P25.21 million as of June 30, 2013 from P1.08 from the December 31, 2012 level were due to net increase in receivables brought in by the newly acquired subsidiary during the period.

The total liabilities at June 30, 2013 increased to P12,352,581 from P11,848,736 at December 31, 2012 consolidated are the results of assumption of various obligations as a result of consolidation of the newly acquired subsidiary, San Carlos Biopower, Inc.

Share capital increased to P1,269,278,565 in June 30, 2013 from P1,100,278,565 at the end of 2012 due to the new issuance of shares while in June 2012, increase is primarily in relation to the increase in authorized capital stock from P1 billion to P2 billion approved by the Securities and Exchange Commission on March 8, 2012.

The Parent Company has no sales revenue for the 2<sup>nd</sup> quarter of 2013, since it began its venture into other business opportunities apart from the semiconductor business from which the Parent Company was founded. While the company remain cautious on further growth this year, as market sentiment is clearly averse to taking any kind of inventory risk, we are optimistic that the Company's recent ventures, particularly in the field of renewable energy and waste recycling will yield positively as they take fruition in the coming periods.

Operating expenses in the 2<sup>nd</sup> quarter 2013 totaled P28,567,649 an increase from P6,878,089 and P12,505,664 compared to the amount incurred in the 2<sup>nd</sup> quarter of 2012 and from the level of 2<sup>nd</sup> quarter of 2011 respectively. While the increase is attributable to the pre-operating expenses of the subsidiary company, management continues to focus on Operating expense optimization as a way to offset any impact of further sales revenue tightness during the upcoming quarters.

As a result of the above, net loss from operations in the 2<sup>nd</sup> quarter 2013 was P15.1 million, a marked increase compared to the operating loss of P1.5 million for the same quarter last year. During the 2<sup>nd</sup> quarter 2011, the Company earned a consolidated amount of P1.7 million operating profit. Only the effect of net change in fair value of AFS investments and currency exchange rates from period to period contributed to the over-all comprehensive income of the group.

**h. Any seasonal aspect that has a material effect on the financial condition or results of operations.**

There are no seasonal aspects that have a material effect on the financial condition or results of operations.

Note: Sometimes only interest-bearing, long-term debt is used instead of total liabilities in the calculation.

Also known as the Personal Debt/Equity Ratio, this ratio can be applied to personal financial statements as well as corporate ones.

A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense.

If a lot of debt is used to finance increased operations (high debt to equity), the company could potentially generate more earnings than it would have without this outside financing. If this were to increase earnings by a greater amount than the debt cost (interest), then the shareholders benefit as more earnings are being spread among the same amount of shareholders. However, the cost of this debt financing may outweigh the return that the company generates on the debt through investment and business activities and become too much for the company to handle. This can lead to bankruptcy, which would leave shareholders with nothing.

The debt/equity ratio also depends on the industry in which the company operates. For example, capital-intensive industries such as auto manufacturing tend to have a debt/equity ratio above 2, while personal computer companies have a debt/equity of under 0.5.

#### Definition of 'Interest Coverage Ratio'

A ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period:

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses.

#### Definition of 'Return On Equity - ROE'

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

ROE is expressed as a percentage and calculated as:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares.

Also known as "return on net worth" (RONW).

The ROE is useful for comparing the profitability of a company to that of other firms in the same industry.

There are several variations on the formula that investors may use:



1. Investors wishing to see the return on common equity may modify the formula above by subtracting preferred dividends from net income and subtracting preferred equity from shareholders' equity, giving the following: return on common equity (ROCE) =  $\frac{\text{net income} - \text{preferred dividends}}{\text{common equity}}$ .

2. Return on equity may also be calculated by dividing net income by average shareholders' equity. Average shareholders' equity is calculated by adding the shareholders' equity at the beginning of a period to the shareholders' equity at period's end and dividing the result by two.

3. Investors may also calculate the change in ROE for a period by first using the shareholders' equity figure from the beginning of a period as a denominator to determine the beginning ROE. Then, the end-of-period shareholders' equity can be used as the denominator to determine the ending ROE. Calculating both beginning and ending ROEs allows an investor to determine the change in profitability over the period.

#### Definition of 'Gross Margin'

A company's total sales revenue minus its cost of goods sold, divided by the total sales revenue, expressed as a percentage. The gross margin represents the percent of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services sold by a company. The higher the percentage, the more the company retains on each dollar of sales to service its other costs and obligations.

$$\text{Gross Margin (\%)} = \frac{\text{Revenue} - \text{Cost of Goods Sold}}{\text{Revenue}}$$

This number represents the proportion of each dollar of revenue that the company retains as gross profit. For example, if a company's gross margin for the most recent quarter was 35%, it would retain \$0.35 from each dollar of revenue generated, to be put towards paying off selling, general and administrative expenses, interest expenses and distributions to shareholders. The levels of gross margin can vary drastically from one industry to another depending on the business. For example, software companies will generally have a much higher gross margin than a manufacturing firm.

#### Definition of 'Net Margin'

The ratio of net profits to revenues for a company or business segment - typically expressed as a percentage - that shows how much of each dollar earned by the company is translated into profits. Net margins can generally be calculated as:

$$\text{Net Margins} = \frac{\text{Net Profit}}{\text{Revenue}}$$

where  $\text{Net Profit} = \text{Revenue} - \text{COGS} - \text{Operating Expenses} - \text{Interest and Taxes}$

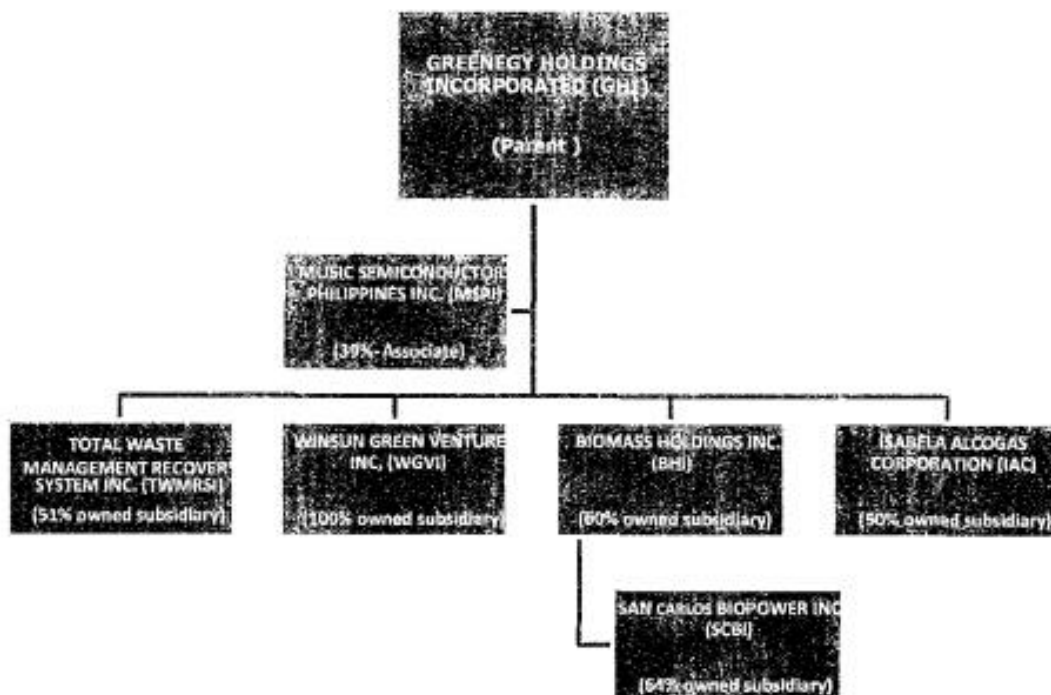
Net margins will vary from company to company, and certain ranges can be expected from industry to industry, as similar business constraints exist in each distinct industry. A company like Wal-Mart has made fortunes for its shareholders while operating on net margins less than 5% annually, while at the other end of the spectrum some technology companies can run on net margins of 15-20% or greater.

Most publicly traded companies will report their net margins both quarterly (during earnings releases) and in their annual reports. Companies that are able to expand their net margins over time will generally be rewarded with share price growth, as it leads directly to higher levels of profitability.



#### Other Information

- A. On April 14, 2012, to augment the funding requirements of the Company, the Board of Directors approved the amendment of the Company's Articles of Incorporation to increase the authorized capital stock from P2 Billion to P3 Billion. This will be presented to the Company's stockholders for approval.
- B. MAP OF INTERCOMPANY RELATIONSHIP



#### C. MEETING OF STOCKHOLDERS

TO ALL STOCKHOLDERS:

NOTICE is hereby given that the Annual Meeting of Stockholders of Greenegy Holdings Incorporated (the "Company") will be held on 16 August 2013, Friday, at 2:00 in the afternoon at No. 54 National Road, Dampol II-A, Pulilan, Bulacan.

The agenda for the said meeting shall be as follows:

1. Call to Order;
2. Certification of Notice and Determination of Quorum;
3. Approval of the Minutes of the Annual Meeting of Stockholders held last 11 December 2012;
4. Annual Report and Financial Statements for the year ended 31 December 2012;

5. Amendment of the Seventh Article of the Articles of Incorporation for the purpose of:
  - i. creating 1 Billion voting and participating preferred shares (as to assets) with a par value of Php0.10 per share from the authorized capital stock; and
  - ii. Increasing the par value of all the remaining unissued and issued common shares from Php0.01 per share to Php1.00 per share;

which shall result in the Company having an authorized capital stock of Php2 Billion divided into 1.9 Billion common shares with a par value of Php1.00 per share and 1 Billion preferred shares with a par value of Php0.10 per share;
6. Amendment of the Sixth Article of the Article of Incorporation in order to increase the number of directors to 11 directors with 2 independent directors from 9 directors with 2 independent directors;
7. Amendment of the By-Laws for the purpose of separating the positions of President and Chief Executive Officer;
8. Amendment of the Manual on Corporate Governance in order to increase the number of directors to 11 directors with 2 independent directors from 9 directors with 2 independent directors;
9. Reclassification of the Php62.5 Million worth of common shares of the 25 Billion common shares of Earthright Holdings, Inc. into 625 Million fully paid preferred shares, and giving all holders of common shares as of June 27, 2013 the same right to reclassify their common shares into preferred shares in such amounts and proportion between Earthright and all other stockholders that can be accommodated by the number of preferred shares created; provided that, stockholders must provide the Company with written notice to reclassify on or before the annual stockholders' meeting on August 16, 2013; provided further, that, any reclassification shall not result in the foreign ownership level of all outstanding common shares and preferred shares exceeding 40%;
10. Approval of the issuance and listing of 17.6 Billion common shares issued to Sunchamp Real Estate Development Corp. ("Sunchamp"), in compliance with the PSE Revised Listing Rules;
11. Waiver by the minority stockholders of the right to conduct a public offering in relation to the 17.6 Billion common shares issued to Sunchamp, in compliance with the PSE Revised Listing Rules;
12. Issuance and listing of warrants in favour of officers and directors under such terms and conditions to be determined by the Board of Directors;
13. Authority to acquire primary or secondary shares and/or invest in companies under the AgriNurture Group of Companies and consolidate the Company's shareholdings in the AgriNurture Group of Companies;
14. Authorization to enter into loan transactions, credit accommodations or other types of credit facilities, surety/guaranty transactions in the aggregate amount of Five Billion Pesos (Php5,000,000,000.00), and renewals, extensions, re-availments, restructurings and amendments thereof with various banks, trust entities, quasi-banks, financial institutions, entities, corporations or individuals, as well as to enter into any other transactions or agreements in the implementation of the foregoing, under such terms and conditions as may be determined by the Board of Directors;
15. Election of Directors;
16. Consideration of such other business as may properly come before the meeting; and
17. Adjournment.

The Organizational Meeting of the new Board of Directors will be held immediately after the Annual Stockholders' Meeting.

By resolution of the Board of Directors, the close of business on 15 July 2013 has been fixed as the record date for the determination of the stockholders entitled to notice of such meeting and any adjournment thereof, and to attend and vote thereat.

All stockholders who will not, are unable, or do not expect to attend the meeting in person are urged to fill in, date, sign and return the enclosed proxy to the Company, at its principal office at No. 54 National Road, Dampol II-A, Pulilan, Bulacan. The proxy need not be a shareholder. A stockholder who is entitled to cast two (2) or more votes may appoint two (2) proxies and must specify the proportion of votes each proxy is appointed to exercise. All proxies must be received on or before 5 August 2013. Proxies received after the said deadline will not be recorded. Corporate stockholders are requested to attach to the proxy instrument their respective Secretary's Certificates containing the Board Resolution vis-à-vis the authority of the proxy(ies). Validation of proxy(ies) shall be held on 6 August 2013 at 2:00 p.m. at the Company's principal office. **Management is not asking you for a proxy nor is it requesting you to send a proxy in its favor.**

*For convenience in registering your attendance, please bring your Identification Card containing your picture and signature, and present the same at the registration desk. Registration shall start at 1:30 p.m.*

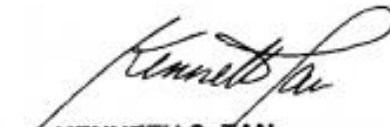
**SIGNATURES**

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 MANILA on AUG 06 2013

By:



**ANTONIO L. TIU**  
President/Chief Executive Officer



**KENNETH S. TAN**  
Treasurer/Chief Financial Officer


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

SUBSCRIBED AND SWORN to before me on AUG 06 2013 at MANILA, affiants exhibiting to me the following evidence of their identity, to wit:

NAMES	GOV'T ISSUED ID	VALID UNTIL	PLACE OF ISSUE
Antonio L. Tiu	Passport No. EB4436922	11 January 2017	Department of Foreign Affairs - Manila
Kenneth S. Tan	Passport No. XX2786525	14 January 2014	Department of Foreign Affairs - Manila

**WITNESS MY HAND AND SEAL.**

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Book No. 2013  
Series of 2013.



**ESSOP G. SOLA**  
Notary Public  
Until Dec. 31, 2013  
PTR No. 1403274 01-02-13 Mia.  
IBP No. 905607 11-09-12 Mia.  
Roll No. 15654  
MCLP Compliance No. III  
0019431 10-9-16