



August 14, 2014

**PHILIPPINE STOCK EXCHANGE, INC.**

Tower One and Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines

Attention : **Ms. JANET A. ENCARNACION**  
Head, Disclosure Department

Re: **Submission of Structured Report – SEC FORM 17-Q**

Gentlemen:

We are furnishing the PSE a copy of the quarterly report using SEC 17-Q for the period ended June 30, 2014 for MacroAsia Corporation as filed with the Securities and Exchange Commission.

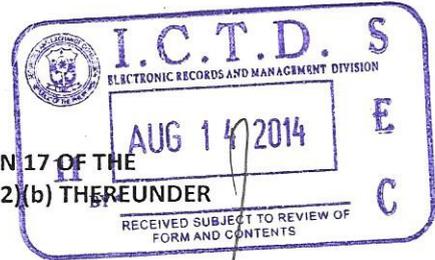
Very truly yours,

**ATTY. MARIVIC T. MOYA**  
Corporate Secretary and  
Compliance Officer/CIO  
VP-HR, Legal and External Relations



**MACROASIA CORPORATION**  
**June 30, 2014**

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, 2014
2. Commission Identification Number 40524                      3. BIR tax Identification No. 004-666-098
4. Exact name of issuer as specified in its charter MACROASIA CORPORATION
5. City of Makati, Metro Manila                      6. \_\_\_\_\_  
 Province, Country or other jurisdiction                      Industry Classification Code  
 of incorporation or organization
7. 12<sup>th</sup> Floor PNB Allied Bank Center, 6754 Ayala Avenue, Makati City                      1226  
 Address of Issuer's Principal office                      Postal Code
8. (632) 840-2001  
 Issuer's telephone number including area code
9. N/A  
 Former name, former address, and former fiscal year, if changed since last report

a) Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock</u> <u>Outstanding and Amount of Debt Outstanding</u>
<b>Common Stock, ₱1 par value</b>	<b>1,233,404,000 Outstanding shares</b>

b) Are any or all of the securities listed on a Stock Exchange?

Yes [  ]                      No [  ]

<u>Name of Stock Exchange</u>	<u>Class</u>
<b>Philippine Stock Exchange</b>	<b>Common Stock</b>

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and RSA Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports);

Yes [  ]                      No [  ]

b) has been subject to such filing requirements for the past 90 days.

Yes [  ]                      No [  ]

# **MACROASIA CORPORATION AND SUBSIDIARIES**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**For the Second Quarter and  
Period Ended June 30, 2014**

## **PART I. FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

Our unaudited condensed consolidated financial statements include the accounts of MacroAsia Corporation and its subsidiaries, collectively referred to as the “the Group” in this report.

The unaudited condensed consolidated financial statements for the second quarter ended June 30, 2014 have been prepared in accordance with Philippine Accounting Standard 34, *Interim Financial Reporting*. Accordingly, the unaudited condensed consolidated financial statements which are filed as Annex 1 of this report, do not include all the information required by generally accepted accounting principles in the Philippines (Philippine GAAP) for complete financial statements as set forth in the Philippine Financial Reporting Standards (PFRS).

### **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The main objective of this MD&A is to help the readers understand the dynamics of our Group’s businesses and the key factors underlying our financial results. Hence, our MD&A is comprised of discussions about our core business units and our analysis of the results of their operations. This section also focuses on key statistics from the unaudited condensed consolidated financial statements and discusses known risks and uncertainties relating to the aviation industry in the Philippines where we operate during the stated reporting period. However, our MD&A should not be considered all inclusive, as it excludes unknown risks, uncertainties and changes that may occur in the general, economic, political and environmental conditions after the stated reporting period or after the date of this report.

Our MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes. All financial information is reported in Philippine peso (₱), unless otherwise stated.

Any references in this MD&A to “we, us, our, MacroAsia and Group” means the MacroAsia Group and references to the “Company” means MacroAsia Corporation, not including its subsidiaries.

Additional information about the Group which includes annual and quarterly reports can be found in our corporate website, [www.macroasiacorp.com](http://www.macroasiacorp.com).

## **BUSINESS OVERVIEW**

### **MacroAsia Corporation**

MacroAsia Corporation (the Company or MAC) is a publicly-listed company, incorporated in the Philippines on February 16, 1970, under the name Infanta Mineral and Industrial Corporation to primarily engage in the business of geological exploration and development. On January 26, 1994, its Articles of Incorporation was amended to change its primary purpose from geological exploration and development to that of engaging in the business of a holding company and to change its corporate name to Cobertson Holdings Corporation. On November 6, 1995, the SEC approved the amendment to the Company's Articles of Incorporation to change its name from Cobertson Holdings Corporation to its present name, MacroAsia Corporation. MAC began commercial operations as a holding company under its amended charter in 1996.

MAC, through its subsidiaries and associates, is presently engaged in aviation-related support businesses. It provides in-flight and institutional catering services, ground handling services for passenger and cargo aircraft, charter flight services, aircraft maintenance, repairs and overhaul (MRO) services and operates an economic zone at the Ninoy Aquino International Airport (NAIA). Its subsidiaries or associated companies render services directly to airline customers/locators at NAIA, Manila Domestic Airport (MDA), Diosdado Macapagal International Airport (DMIA), Mactan-Cebu International Airport (MCIA) and Kalibo International Airport (KIA), generating both local and export revenues. A subsidiary of MAC also provides nickel exploration services for mining companies. Another subsidiary is also pursuing revenue-generating activities arising from water treatment or bulk water supply using surface water sources.

MAC continues to operate mainly through its five (5) directly owned subsidiaries and two (2) affiliates, as fully discussed below.

### **MacroAsia Catering Services, Inc.**

MacroAsia Catering Services, Inc. (MACS) was incorporated on November 5, 1996, then with a corporate name of MacroAsia-Eurest Catering Services, Inc. (MECS), to primarily provide in-flight catering services at the NAIA and the MDA. When MACS started commercial operations on September 1, 1998, it was a joint venture between MAC (67%) and two foreign partners: Singapore Airport Terminal Services (SATS, at 20%) and Compass Group International B.V. (then known as Eurest International B.V., at 13%). By mutual agreement of the three JV partners, a sale and purchase agreement with Compass Group International B.V. was executed on June 28, 2006 whereby MAC acquired the 13% shareholdings of the Compass Group. Since then, MACS continues to operate as a joint venture between MAC (80%) and SATS (20%). In the same year, the Board of Directors of MACS decided to change its company name to MacroAsia Catering Services Inc.

MACS' in-flight kitchen facility is situated on a two-hectare lot being leased from the MIAA. It has a design capacity of approximately 10,000 meals a day. MACS' operations is under a concession agreement with Manila International Airport Authority (MIAA) that grants the right to operate an in-flight catering service for civil and/or military aircraft operating at the NAIA and/or Manila Domestic Airport. MACS secures such right by remitting the monthly Concessionaire's Privilege Fee (CPF) to MIAA, equivalent to 7% of its gross sales.

MACS consistently complies with both international and local hygiene standards and environmental regulations. It is the only in-flight caterer in the Philippines that holds an ISO certification, in addition to Hygiene and Food Safety, HACCP and HALAL certificates conferred by independent and professional certifying organizations. It has a fully-equipped laboratory manned by in-house microbiologists to ensure that high standards are maintained at all times.

Capturing more than 60% of the in-flight catering market, MACS is the catering service provider to 14 full-service foreign carriers and 2 cargo freighters plus VIP and General Aviation clients operating at the NAIA. MACS has been the recipient of several awards and commendations for outstanding service, besting other service providers from all over the world. The most recent award is the Gold Award given by Cathay Pacific on its recently concluded Caterers' Performance Recognition Program (CPRP) for 2013, surpassing 46 caterers among the Cathay Pacific network, worldwide. In 2012, MACS bagged the Diamond Award, the highest recognition in Cathay Pacific's CPRP, indicating that MACS is the best among 40 catering stations in the Cathay Pacific network, worldwide. This followed the Silver Award for 2012 performance received by MACS from Dragon Air, as MACS got recognized for top performance among the 24 catering stations in Dragon Air's network. MACS also was recognized this year by All Nippon Airways (ANA), as the "Gold Award winner for The Best Short Haul Caterer 2012", besting 12 other caterers in ANA's short-haul network.

On June 5, 2012, the company has ventured into the State of Qatar to pursue business within the food and allied services industry, in partnership with a Qatari group. MACS entry to Qatar is a joint-venture named "MacroAsia WLL", a limited liability company in Qatar, principally with reputable Qatari counterparts. In this project, MACS will have an ownership of 44%, but will have management and operational responsibility for the JV. The JV remains to be in the development stage as of this reporting period.

### **MacroAsia Airport Services Corporation**

MacroAsia Airport Services Corporation (MASCORP) was incorporated on September 12, 1997 to provide, manage, promote and/or service any and all ground handling requirements of military and/or commercial aircraft for passengers and cargo. MASCORP commenced its ground handling operations on April 19, 1999 at the NAIA, and has been generating both domestic and export sales.

On June 15, 1999 the company originally signed a joint venture agreement with Ogden Aviation Philippines B.V. (formerly Ogden Water Systems of Muscat B.V.). Ogden Aviation Philippines B.V. was subsequently acquired by Menzies Aviation Group in 2001. Subsequently, on April 12, 2007, MAC acquired the 30% share of Menzies, making MASCORP a wholly owned subsidiary of MAC.

On July 2, 1999, a wholly-owned subsidiary of MASCORP, Airport Specialists' Services Corporation (ASSC), was incorporated primarily to manage and to promote, service and/or provide manpower support for any and/or all ground handling requirements of private, military and/or commercial aircraft. ASSC commenced operations immediately after its

incorporation but had ceased operations shortly thereafter. Toward the end of 2006, MAC acquired MASCORP's 100% ownership in ASSC. The effective ownership of MAC in ASSC was thus increased from 70% to 100%. Through the restructuring, MAC effectively acquired the 30% minority interest of Menzies Aviation Group in ASSC. Consequently, ASSC became a direct subsidiary of MAC.

MASCORP's operations is dependent upon its concession agreements with MIAA and Mactan-Cebu International Airport Authority (MCIAA), which grants the company the right to operate ground handling services in NAIA and MCIA terminals. MASCORP secures such right by paying the monthly CPF (7% of gross revenue) on time.

Today, MASCORP is currently earning the reputation as a preferred ground handling and airport service company in the NAIA, since it is the only ground handling company that services all three of NAIA's international airport terminals.

### **MacroAsia Properties Development Corporation**

MacroAsia Properties Development Corporation (MAPDC), another wholly-owned subsidiary, was incorporated on June 4, 1996 to primarily engage in the acquisition, development and sale of real properties. After it completed its first infrastructure project in 1997 and following the Asian economic crisis, the company suspended pursuing further property development projects as a core business and refocused its efforts on aviation-support activities.

On August 31, 2000, MAPDC was registered as an Ecozone Developer/Operator with the Philippine Economic Zone Authority (PEZA), and as such, it enjoys tax incentives. It restarted commercial operations on the same date, this time as the ecozone developer/operator of the 23-hectare MacroAsia Special Ecozone at the NAIA, with Lufthansa Technik Philippines, Inc. (LTP) as its anchor locator for the next 25 years. LTP is an associated company of MAPDC as LTP is 49% owned by MAC.

MAPDC has a 25-year lease covering the 23-hectare property occupied by the Ecozone with the Manila International Airport Authority (MIAA). Today, the MacroAsia Special Ecozone is the only operational ecozone at the NAIA.

MAPDC is the subsidiary that serves as a vehicle for the entry of MAC into the water services business (bulk water supply or commercial retail of treated surface water in selected localities). Starting 2012, MAPDC has ongoing projects in provinces outside of Metro Manila. No revenues are derived yet from these projects, since the operational development of these projects is medium-term, exceeding a year before revenues become possible.

### **MacroAsia Air Taxi Services, Inc.**

MacroAsia Air Taxi Services, Inc. (MAATS) is a wholly-owned subsidiary of MAC which was incorporated in June of 1996. MAATS is a licensed, non-scheduled domestic flight operator providing helicopter chartering services from its base at the General Aviation Area, Manila Domestic Airport to any point within the Philippines.

MAATS started commercial operations in October 1996. It has since been leasing MAC's Ecureuil AS350-B2, a 5-passenger helicopter aircraft for its chartering business. It is powered by a Turbomeca Arriel engine that has a float kit reserved for emergency water landing requirements. Revenues derived from chartering operations are 100% domestic, with majority of its customers being local businessmen or corporate accounts.

MAATS is duly licensed by the Civil Aeronautics Board (CAB), as well as an Air Operator Certificate (AOC) and Certificate of Airworthiness issued by the Civil Aviation Authority of the Philippines (CAAP). MAATS is greatly dependent on the two aforementioned licenses, without which the company cannot provide charter services to the public. Both licenses have to be renewed annually. As part of its safety standard, the company ensures that its helicopter receives a year-round preventive maintenance in accordance with the manufacturer's specifications and complies with the stringent requirements of the CAB and CAAP.

MAATS adheres to the stringent safety standards and procedures set by the local regulating agencies. The company's pilot and mechanics undergo mandatory training programs to enrich their expertise and to keep up with the latest trends in operational safety, efficiency and customer service, a practice that has lifted the company ahead of its competitors. MAATS is recognized as one of the best players in the helicopter charter service industry in the country.

MAATS also provides support services for fixed-based operators, as well as specialized ground handling services for executive jets and similar specialized aircraft.

### **MacroAsia Mining Corporation**

MacroAsia Mining Corporation, another wholly owned subsidiary, was incorporated on September 25, 2000 to serve as an institutional vehicle through and under which the business of a mining enterprise may be established, operated and maintained.

MMC is now geared towards the provision of consultancy and mining exploration services, focusing on nickel areas. On August 24, 2012, the Company entered into a Contract for Service Agreement with a third party to render exploratory drilling and sampling of nickel laterite services on the third party's mining tenement. This year, it has signed another exploration contract with another mining company for nickel exploration services.

### **Lufthansa Technik Philippines, Inc.**

Lufthansa Technik Philippines, Inc. (LTP) is a joint venture between MAC (49%) and Lufthansa Technik AG of Germany (51%). It is the only company which provides a wide range of aircraft maintenance, repair and overhaul services at the NAIA, DMIA, MCIA and Davao International Airport.

Following the signing of the joint venture agreement on July 12, 2000, and its subsequent registration with the PEZA as an economic zone locator on August 30, 2000, LTP started its commercial operations on September 01, 2000. Since then, it has been recognized as an outstanding company that has consistently generated export revenues for the country.

On February 10, 2012, LTP opens its third aircraft hangar to accommodate maintenance works for the Airbus A380, the world's biggest and most technologically advanced commercial aircraft today.

LTP is currently providing line and base maintenance needs of more than 50 airline customers around the globe from its facility in NAIA. Aviation authorities/agencies from the respective countries of origin of these airline clients issue licenses/certificates to LTP for accreditation to provide MRO services to the associated airlines.

The company has successfully passed the requirements of the European Aviation Safety Agency (EASA), the United States' Federal Aviation Administration (FAA) and other national and regional regulatory bodies. It also holds an EASA 21 Design organization extension from Lufthansa Technik AG, enabling them to create in-house change/repair designs. The extent of LTP's work/services largely depends on these certifications, which describe/specify that LTP's services must be carried out in accordance with the respective countries' aviation regulations. These certifications are renewed either annually or every two years.

LTP also has a concession agreement with MIAA upon which the company's business operations is highly dependent. The agreement grants the company the right to operate as a provider of aircraft MRO services at NAIA Terminals 1, 2, and 3. LTP secures such right by yearly renewal of the agreement and paying the monthly CPF (7% of gross revenue) on time.

#### **Cebu Pacific Catering Services, Inc.**

Cebu Pacific Catering Services, Inc. (CPCS) is MacroAsia's first in-flight catering venture which started commercial operations in October of 1996. MAC has 40% equity in this joint venture, while its partners - Cathay Pacific Catering Services of Hongkong and MGO Pacific Resources Corporation hold 40% and 20% equity, respectively.

CPCS is the first and presently still the only full-service airline catering company at the MCIA. CPCS is an economic zone locator covering 3,050 sqm in Mactan, Cebu and services both domestic and international airlines.

CPCS owns a two-storey kitchen facility designed to fully meet projected total airline catering demands and to easily accommodate future expansion. The facility is capable of producing over 3,000 meals a day in accordance with stringent international hygiene standards. The facility was designed and developed by Cathay Pacific Catering Services (HK). With its current portfolio of clients, the facility still has excess capacity to serve the requirements of Mactan Cebu International Airport in the years to come.

**KEY PERFORMANCE INDICATORS**
*(in thousands except for ratios)*
**June 30, 2014 and 2013**

The Company uses major performance measures or indices to track its business results. The analyses are based on comparisons and measurement on financial data of the current period against the same period of the previous year. Among the measures are the following:

**Return on Net Sales (RNS)**

This ratio measures the amount of income, after all costs and expenses, including taxes are deducted, for every peso of net revenue earned.

		2014	2013
Return on Net Sales	= $\frac{\text{NI attributable to Equity Holder of Parent}}{\text{Total Net Revenues}}$	= $\frac{\text{₱ 33,488}}{845,726}$	= $\frac{\text{₱ 24,866}}{817,678}$
		= <u>3.96%</u>	= <u>3.04%</u>

The increase in the consolidated RNS is mainly caused by the income contributed by LTP as compared to prior period's contribution of losses, as well as the sustained profitability of the catering and ground handling subsidiaries.

**Return on Investment (ROI)**

This ratio measures the amount of income earned on invested capital.

		2014	2013
Return on Investment	= $\frac{\text{NI attributable to Equity holder of Parent}}{\text{Total Interest-bearing Liabilities + Equity attributable to Equity holder of Parent}}$	= $\frac{\text{₱ 33,488}}{2,668,111}$	= $\frac{\text{₱ 24,866}}{2,830,547}$
		= <u>1.26%</u>	= <u>0.88%</u>

The ROI increased primarily because of the current period's income contribution of our MRO associate, LTP and the ROI was also affected by the interest bearing loans obtained by our ground-handling subsidiary, MASCORP.

**Return on Equity (ROE)**

This KPI is a measure of the owner's return for every peso of invested equity.

		2014	2013
Return on Equity	= $\frac{\text{NI attributable to Equity holder of Parent}}{\text{Total Equity holder of Parent}}$	= $\frac{\text{₱ 33,488}}{2,570,745}$	= $\frac{\text{₱ 24,866}}{2,830,547}$
		= <u>1.30%</u>	= <u>0.88%</u>

The increase in the ROE resulted basically from the income contribution of our associate, LTP as compared to prior year's contribution of loss.

### Direct Cost and Expense Ratio

This ratio measures the average rate of direct costs and expense on products/services sold.

		2014	2013
Direct Cost Ratio	$= \frac{\text{Total Direct Cost}}{\text{Total Net Revenues}}$	$= \frac{\text{₱ 649,637}}{845,726}$	$= \frac{\text{₱ 620,402}}{817,678}$
		<u><u>76.81%</u></u>	<u><u>75.87%</u></u>
Operating Expense Ratio	$= \frac{\text{Total Operating Expenses}}{\text{Total Net Revenues}}$	$= \frac{\text{₱ 166,811}}{845,726}$	$= \frac{\text{₱ 168,735}}{817,678}$
		<u><u>19.72%</u></u>	<u><u>20.64%</u></u>

Direct costs increased mainly due to increases in food costs and labor costs aligned with increase in operational requirements, government regulations, higher repairs and maintenance charges on ground support equipment. Operating expense ratio exhibited a slight decrease due to lower incidental expenses and lower incentives paid as compared to the prior period.

### Current Ratio

This ratio measures the group's ability to settle its current obligations.

		2014	2013
Current Ratio	$= \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$	$= \frac{\text{₱ 1,388,137}}{356,619}$	$= \frac{\text{₱ 1,469,902}}{354,726}$
		<u><u>3.89 : 1</u></u>	<u><u>4.14 : 1</u></u>

The company maintained its healthy current ratio as compared to the same period last year.

### Debt-to-Equity Ratio

This ratio indicates relationship of the group's debt to the equity of the owners.

		2014	2013
Debt-to-Equity Ratio	$= \frac{\text{Total Interest-bearing Debts}}{\text{Total Equity}}$	$= \frac{\text{₱ 97,366}}{2,638,166}$	$= \frac{\text{N/A}}{2,887,687}$
		<u><u>3.69 : 1</u></u>	<u><u>N/A</u></u>

Interest bearing debts were availed by MASCORP near-end of 2013 and on the first quarter of 2014 for general corporate purposes and to finance payment of its liabilities arising from its re-fleeting of ground support equipment.

### Interest Coverage Ratio

This ratio measures the number of times a company could make the interest payments on its debt with its earnings before interest and taxes.

		2014	2013
Interest Coverage Ratio	= $\frac{\text{Total Earnings before Interest and Taxes}}{\text{Interest Expense}}$	= $\frac{\text{₱ 54,402}}{1,853}$	= $\frac{\text{₱ 43,633}}{\text{N/A}}$
		= <u>29.36 : 1</u>	= <u>N/A</u>

Interest bearing debts were availed by MASCORP near-end of 2013 and on the first quarter of 2014 to be used in general corporate purposes and to finance the payment of its liabilities.

### Asset-to-Equity Ratio

This ratio measures the company's leverage and long-term solvency.

		2014	2013
Asset-to-Equity Ratio	= $\frac{\text{Total Assets}}{\text{Total Equity}}$	= $\frac{\text{₱ 3,229,497}}{2,638,166}$	= $\frac{\text{₱ 3,385,865}}{2,887,687}$
		= <u>1.22 : 1</u>	= <u>1.17 : 1</u>

The Asset-to-Equity Ratio did not have a significant change compared to last year, signifying the stability of the company's leverage and long-term solvency.

## RESULTS OF OPERATION

The Group registered a consolidated net income after tax of ₱38.7 million for the first half of 2014, reflecting a positive variance of ₱9 million as compared to the consolidated net income after tax of ₱29.5 million during the same period last year. The increase is largely driven by MAC's share in the net income of its MRO associate, aside from the continuing profits from our associate in Cebu and our catering and ground handling subsidiaries. Another factor is the foreign exchange fluctuations which benefited the operating subsidiaries whose revenues are mostly in USD.

Revenues derived from operations amounted to ₱846 million, a growth of ₱28 million as compared to last year's consolidated operating revenues of ₱817.7 million. MACS' in-flight and other catering revenues of ₱524 million comprises 62% of our total consolidated operating revenues. The rise of ₱22 million in MACS' revenues is mainly attributable to the new institutional accounts handled this year while in-flight revenues remained at the same level as last year. Ground handling and aviation revenues of ₱214.4 million grew by 4% from last year's ₱207 million due to higher non-routine revenues. Rental and administrative revenues remained almost the same with last year because lease rental is being accounted for on a straight-line basis over the lease term, in compliance with

Philippine Accounting Standards (PAS) 17. Charter flights revenue of ₱5.7 million is higher by ₱1.1 million as compared to 2013's ₱4.6 million which was characterized by a chopper downtime arising from mandated aircraft/chopper repairs and maintenance.

The Group's mining business segment contributed ₱7.6 million revenue stream as of the current period which is lower by ₱2 million as compared to last year's revenues attributable to the provision of exploration services for a 3<sup>rd</sup> party mining company client. Increase in exploration service revenues are expected to flow to the company starting on the third quarter of 2014.

Total direct costs for the first half of the year reached ₱650 million, posting an increase of 5% or ₱29 million from 2013. The increase in the current year is driven primarily by higher food and labor costs of our catering subsidiary attributable to the expansion of institutional accounts handled, higher repairs and maintenance charges of our operating subsidiaries and the increase in mining expenses incurred in preparation of the startup of exploration services in the second quarter of this year. Consolidated operating expenses of ₱166.8 million decreased by ₱1.9 million from last year's ₱168.7 million due to the reclassification of mining staff costs from indirect costs of the Parent Company to direct costs of the mining subsidiary. These mining staff became engaged in revenue-generating activities through the nickel exploration services of the subsidiary.

Interest income of ₱3.5 million is down by ₱7.8 million as compared to last year's ₱11 million due to the lower interest rates and lower level of short term placements and AFS investments as compared to the same period in 2013. These AFS investments were subsequently sold in the second quarter of 2013 resulting to a gain of ₱54 million. Other income is down by ₱1 million as compared to last year due to foreign exchange fluctuations benefiting our operating subsidiaries whose revenues are denominated in USD. Estimated provision for income tax is down by 2% due to the decrease in the taxable position of our operating subsidiaries.

Equity in net income/loss of associates amounting to ₱20.2 million represents MAC's share in the net operating result of its associated companies. Changes in equity shares from period to period are dependent upon the results of operations of the two associated companies. For the first half of 2014, our MRO business registered profits of ₱24.9 million for which we share 49% or ₱12.2 million. CPCS - our catering associate in Cebu, contributed its share on its net earnings amounting to ₱8 million, almost the same level compared to last year's semi-annual period.

Today, the Philippine airline industry continues to be dynamic, with significant factors within and outside the Philippines that are impacting on the Philippine aviation outlook. As a Group, we have not been immune to the challenges of our airline clients, especially some base clients and those from foreign countries who are also coping with difficulties arising from economic and security issues within their geographical regions, rising fuel prices, and the like. Our services and products to these clients are often subjected to cost pressures, as everybody is bent on cutting down or avoiding expenses in order to operate competitively. Our Group remains steadfast and resilient, as we continue to expand our existing core businesses and pursue new viable opportunities in order to further increase our Group's shareholders' value.

## **FINANCIAL POSITION**

At the consolidated level as of June 30, 2014, total assets remained strong at ₱3.2 billion, posting a ₱157 million increase from last year-end's level of ₱3.1 billion. Cash and cash equivalents of ₱817 million decreased by ₱50 million or 6%, as a subsidiary purchased a property (3-storey building) which will be converted into a food commissary. Receivables grew by ₱42 million or 11% due to trade-related additions in our current operations. These are expected to be collected within the year. Inventories of ₱47 million were maintained in line with forecasted inventory level requirements. Other current assets of ₱113 million represent unused input taxes, tax credit certificates and unamortized prepayments for insurance covers, rent, utilities and unconsumed supplies as of June 30, 2014.

Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements. Movements in the account are contributed by the share in cumulative translation adjustments for LTP due to foreign exchange fluctuations, share in re-measurement gains and losses on defined benefit plans due to the revised PAS19, share in cash dividends declared and actually received during the current period, and the incremental equity share in net earnings/loss of the associated companies. The Group recorded an increase of 2% or ₱10 million in this investment account, from ₱462 million in 2013 year-end to ₱472 million in 2014 primarily due to the share in net income for the period arising from LTP and CPCS.

Property and equipment of ₱450 million is up by ₱71 million due to an acquisition of a building during the first half of the year. Deferred mine exploration costs of ₱233 million remained the same as exploration activities were almost done in 2010. Investment property of ₱144 million pertains to land held for future development by MAPDC.

Accrued rental receivable and payable of ₱118 million remained the same, and is in compliance with PAS 17, which requires the straight-line recognition of operating lease income and expense over the term of the lease. Likewise, deferred rent expense and unearned rent income of ₱11 million are being amortized on a straight-line basis over the same lease term.

Available-for-sale investments amounting to ₱137 million represents the remaining investment in corporate bonds and golf club shares held by the parent company.

The carrying amount of deferred income tax assets of ₱23 million as of June 30, 2014 mostly came from the allowances on probable losses and doubtful accounts. Deposits and other noncurrent assets increased by ₱26 million (or 12%) to ₱236 million due to increase in refundable deposits and project advances for the current period. This account also includes project advances and investments amounting to ₱37 million, arising from the contractual joint venture agreement entered into between Maragondon Water District and WBS Consortium in 2011. Other noncurrent assets account also includes prepayments on rent, retirement benefits, and goodwill of ₱17.5 million from the Company's acquisition of the 13% minority interest of Compass (formerly Eurest International B. V.) in MACS, among others.

Accounts payable and accrued liabilities increased by ₱41 million (or 15%) as of June 30, 2014. Notes payable increased by ₱70 million due to loan availed from a local bank that was used by our ground-handling subsidiary to finance its asset acquisition and for general corporate purposes. Accrued retirement benefits expense of ₱28.4 million and deferred tax liabilities of ₱0.4 million remained at the same level as prior year's ending balance. Dividends payable of ₱8.62 million shows the total outstanding checks payable for past dividends declared to the Company's stockholders as of June 30, 2014.

The Company's share in foreign currency translation adjustments of LTP in the amount of ₱177 million and share in re-measurements of defined benefit plan of associates remained at almost the same level as last year-end. Available for sale (AFS) investments reserve amounting to ₱2.7 million arose due to fair value valuation of the remaining investment in bonds and golf shares.

Changes in non-controlling interests are largely dependent on the results of operations of MacroAsia Catering Services, Inc. This account represents the 20% equity share of SATS in the abovementioned company.

### **MacroAsia Corporation's Mining Project**

MacroAsia Corporation holds two Mineral Production Sharing Agreements (MPSA), MPSA-220-2005-IVB and MPSA-221-2005-IVB, both located in Brooke's Point, Palawan. MPSA-220 or the Infanta Nickel Project covers a total land area of 1,114 hectares with nickel in the form of laterite ore as the primary commodity. This area was the source of ore shipments to Japan in the 1970's.

The total extent of the laterite area within the MPSA is around 536 hectares, with nickel deposits comprising of limonite and saprolite ores. Within this delineated nickel ore envelope, 2,751 drill holes were done, resulting into 47,273.9 meters drilled. There were also 480 test pits that were dug, yielding 2,568.2 meters more for sampling. The resulting samples collected numbered 54,412, and these were analyzed for nickel (Ni), iron (Fe) and 12 other elements/oxides, including the loss in ignition (LOI), using fused bead X-Ray Fluorescence (XRF) technique at Intertek Laboratories. The Company has completed an exploration report that is compliant to the Philippine Mineral Reporting Code. A mining plan has also been drafted.

The operation of the Mining Project has already been endorsed by the three beneficiary baranggays, including the indigenous people in the area. In 2010, the Company has received the Environmental Compliance Certificate (ECC) for operations. The Company is still completing the acquisition of other permits needed to operate.

Exploration and maintenance works in the mineral property was done in 2012. The exploration period of the MPSA 220-2005-IVB has been approved for extension by the Department of Environment and Natural Resources (DENR) on December 5, 2012. The extended exploration period will allow MAC to finalize the data to fine-tune the feasibility study for operations and eventual metallurgical testing of the nickel laterite ore. Confirmatory drilling were done in the priority mining area for future mining plans on the 3<sup>rd</sup> quarter of 2013 but the work program is currently on hold.

Bulawan Mining Corporation (BUMICO), a subsidiary of the Philippine National Bank (PNB), transferred its right for their Exploration Permit Application (EXPA 103-VII) over a 403 hectare area in Basay, Negros to MAC through the signing of a Deed of Assignment (DOA) on August 15, 2012. The DOA has been approved by Mines and Geosciences Bureau (MGB) Region VII Office on January 28, 2013. The area has a high potential for copper-gold mineralization. The exploration permit application is now under MAC's name. This tenement can be subject to a JV for exploration with other interested entities.

BUMICO also transferred its interests in the Bulawan Mining Project with an Operating Agreement with Philex Mining Corporation (PMC) to MAC through a Deed of Assignment (DOA) signed on September 6, 2012. The DOA was finalized after securing the written consent of Philex. In relation to the operating agreement between Philex and BUMICO, Philex committed to submit quarterly reports to MAC which will be subjected to regular validation by MAC's technical team.

The Exploration Permit (EP) for the Sipalay Project, another BUMICO project that was part of BUMICO's assignment to MAC, has been renewed by the Mines and Geosciences Bureau on December 10, 2012.

#### **NUMBER OF STOCKHOLDERS**

The number of stockholders as of June 30, 2014 and December 31, 2013 are 866 and 867, respectively.

**OTHER MATTERS**

1. Passenger loads and flight frequencies of airlines are the two most important factors that affect the revenue levels of the Group's operating units. The Group constantly monitors these two factors to efficiently manage its costs.
2. Management is not aware of any known trends or any known demands, commitments, events or uncertainties that may or will have a material negative impact on the Group's liquidity.
3. The Group is not aware of any known trends, 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.
4. Management is not aware of having or anticipates having within the next twelve (12) months any cash flow or liquidity problems. The Group's generally sources its liquidity requirements through its operating revenues and collections. Excess cash are invested in placements with better yields.
5. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.
6. There are no material commitments for capital expenditures created during the reporting period.
7. There have been no significant elements of income or loss that did not arise from the Group's continuing normal operations.
8. The Group is not aware of any future event that will cause a material change in the relationship, vertical and horizontal analyses, of any material item from period to period.
9. The Group is not aware of any seasonal aspects that have material effect during the reporting period.
10. The Group has not issued, repurchased or repaid any debt or equity securities during the current interim reporting period.
11. No material events have occurred subsequent to the end of the current interim period that should be reflected in the financial statements for the interim period.

**SIGNATURES**

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

Issuer: MACROASIA CORPORATION

  
**AMADOR T. SENDIN**  
Chief Financial Officer  
VP – Administration & Business Development

  
**ATTY. MARIVIC T. MOYA**  
Corporate Secretary and  
Compliance Officer/CIO  
VP-HR, Legal and External Relations

Date: August 14, 2014

Date: August 14, 2014

**Annex 1**

# **MACROASIA CORPORATION AND SUBSIDIARIES**

## **Interim Condensed Consolidated Financial Statements**

**June 30, 2014 and 2013 (Unaudited)**

**and**

**December 31, 2013 (Audited)**

## **GENERAL INFORMATION**

### **Directors (as of June 30, 2014)**

Washington Z. SyCip	(Chairman)
Harry C. Tan	(Vice Chairman)
Joseph T. Chua	(President and CEO)
Lucio K. Tan, Jr.	
Jaime J. Bautista	(Treasurer)
George Y. SyCip	
Carmen K. Tan	
Johnip G. Cua	(Independent Director)
Ben C. Tiu	(Independent Director)

### **Corporate Secretary/ Compliance Officer/ CIO**

Atty. Marivic T. Moya

### **Chief Financial Officer**

Amador T. Sendin

### **Stock and Transfer Agent**

Trust Banking Group  
Philippine National Bank (formerly Allied Banking Corporation)  
3<sup>rd</sup> Floor, PNB Financial Center  
Pres. Diosdado Macapagal Blvd., Pasay City

### **Banks**

Philippine National Bank (formerly Allied Banking Corporation)  
6754 Ayala Avenue, Makati City

Philippine Bank of Communications  
565-567 Sto. Cristo, Binondo Manila

Banco de Oro Universal Bank  
EPC Building, Paseo de Roxas cor.  
Gil Puyat Ave., Makati City

Unionbank of the Philippines  
Tektite Building, Ortigas Center  
Pasig City

Philippine National Bank  
6772 Ayala Avenue  
Makati City

China Banking Corporation  
8745 Paseo de Roxas corner Villar St.  
Makati City

### **Auditors**

SyCip Gorres Velayo & Co.  
6760 Ayala Avenue, Makati City

**INTERIM CONSOLIDATED BALANCE SHEETS**

(In Thousands)

	<b>JUNE 30, 2014</b>		<b>DECEMBER 2013</b>
	<b>(UNAUDITED)</b>		<b>(AUDITED)</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	P 817,267	P	867,381
Receivables - net	410,710		367,803
Inventories	46,989		47,042
Other current assets	113,171		62,226
Total Current Assets	<b>1,388,137</b>		1,344,452
<b>Noncurrent Assets</b>			
Investments in associates	472,168		461,761
Property and equipment - net	449,923		379,222
Deferred mine exploration costs	233,309		233,309
Investment property - net	143,852		143,852
Accrued rental receivable	117,841		117,650
Available-for-sale investments	136,792		136,792
Deferred rent expense	10,748		11,244
Goodwill	17,531		17,531
Deferred income tax assets - net	23,212		16,857
Deposits and other noncurrent assets - net	235,985		210,185
Total Noncurrent Assets	<b>1,841,360</b>		1,728,403
<b>TOTAL ASSETS</b>	<b>P 3,229,497</b>	P	<b>3,072,854</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	P 311,295	P	270,124
Notes payable - current portion	25,043		9,000
Dividends payable	8,621		12,621
Income tax payable	11,660		1,186
Total Current Liabilities	<b>356,619</b>		292,930
<b>Noncurrent Liabilities</b>			
Accrued rental payable	117,841		117,650
Notes payable - non current	72,323		18,000
Unearned rent income	10,748		11,244
Rental deposit	4,963		4,622
Accrued retirement benefits payable	28,422		28,799
Deferred tax liability	415		415
Total Noncurrent Liabilities	<b>234,711</b>		180,730
<b>Total Liabilities</b>	<b>591,331</b>		473,660

**Equity**

Capital stock - P 1 par value		
Authorized - 2,000,000,000 shares		
Issued and fully paid - 1,250,000,000 shares	<b>1,250,000</b>	1,250,000
Additional paid-in capital	<b>281,437</b>	281,437
Share in foreign currency translation adjustments of an associate	<b>(176,570)</b>	(176,800)
Remeasurements on defined benefit plan	<b>11,283</b>	11,283
Share in remeasurements on defined benefit plan of associates	<b>(155,662)</b>	(155,662)
Net changes in FV of AFS	<b>2,689</b>	2,689
Treasury shares	<b>(49,419)</b>	(49,419)
Retained earnings	<b>1,406,987</b>	1,373,499
Total equity attributable to equity holders of the parent	<b>2,570,745</b>	2,537,027
<b>Non-controlling interests</b>	<b>67,421</b>	62,168
<b>Total Equity</b>	<b>2,638,166</b>	2,599,195
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P 3,229,497</b>	P 3,072,854

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**INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousands Except Earnings Per Share)

	April - June		January to June	
	2014	2013	2014	2013
<b>SERVICE REVENUE</b>				
In-flight and other catering	₱ 278,150	₱ 256,468	₱ 524,044	₱ 502,039
Ground handling and aviation	111,725	101,575	214,408	206,813
Rental and administrative	46,981	47,600	93,980	94,247
Exploratory drilling fees	7,598	5,503	7,598	9,973
Charter flights	3,129	4,278	5,696	4,607
	<b>447,584</b>	<b>415,423</b>	<b>845,726</b>	<b>817,678</b>
<b>DIRECT COSTS</b>				
In-flight and other catering	192,123	180,109	363,432	348,609
Ground handling and aviation	91,005	85,428	179,826	172,467
Rental and administrative	44,304	44,580	87,520	87,504
Exploratory drilling fees	8,662	3,662	13,779	7,709
Charter flights	2,956	2,548	5,080	4,113
	<b>339,049</b>	<b>316,328</b>	<b>649,637</b>	<b>620,402</b>
<b>GROSS PROFIT</b>	<b>108,535</b>	<b>99,096</b>	<b>196,089</b>	<b>197,276</b>
OPERATING EXPENSES	(84,608)	(88,060)	(166,811)	(168,735)
SHARE IN NET INCOME (LOSS) OF ASSOCIATES	(16,797)	(19,655)	20,177	(52,817)
GAIN ON SALE OF INVESTMENTS		53,776		53,776
INTEREST INCOME	1,330	6,311	3,499	11,312
FINANCING CHARGES	(1,503)	121	(2,193)	
OTHER INCOME (CHARGES)	(3,138)	3,814	1,790	2,821
<b>INCOME BEFORE INCOME TAX</b>	<b>3,819</b>	<b>55,403</b>	<b>52,549</b>	<b>43,633</b>
<b>PROVISION FOR INCOME TAX</b>	<b>(7,331)</b>	<b>(9,826)</b>	<b>(13,809)</b>	<b>(14,084)</b>
<b>NET INCOME FOR THE PERIOD</b>	<b>(3,512)</b>	<b>45,577</b>	<b>38,741</b>	<b>29,549</b>
<b>Attributable to :</b>				
Equity holders of the parent	(6,413)	43,370	33,488	24,866
Non-controlling interests	2,901	2,207	5,253	4,683
<b>NET INCOME FOR THE PERIOD</b>	<b>(3,512)</b>	<b>45,577</b>	<b>38,741</b>	<b>29,549</b>
<b>Basic Earnings Per Share *</b>	<b>₱ (0.0052)</b>	<b>₱ 0.0352</b>	<b>₱ 0.0272</b>	<b>₱ 0.0202</b>
<b>Number of outstanding shares</b>	<b>1,233,404</b>	<b>1,233,404</b>	<b>1,233,404</b>	<b>1,233,404</b>

\*Earnings per share is computed as net income attributable to equity holders of the parent divided by the weighted average number of shares.

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In Thousands)

	April - June		January to June	
	2014	2013	2014	2013
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
<b>NET INCOME (LOSS)</b>	<b>₱ (3,512)</b>	<b>₱ 45,577</b>	<b>₱ 38,741</b>	<b>₱ 29,549</b>
<b>OTHER COMPREHENSIVE LOSS - Net</b>				
Net foreign currency translation adjustments	187	2,952	231	2,855
Changes in fair value of AFS investments - net of tax effect	550	(18,098)	(550)	(18,061)
Remeasurements on defined benefit plan		68		34
	<b>737</b>	<b>(15,078)</b>	<b>(319)</b>	<b>(15,172)</b>
<b>Total Comprehensive Income (Loss)</b>	<b>(2,774)</b>	<b>30,499</b>	<b>38,421</b>	<b>14,377</b>
<b>Attributable to:</b>				
Equity holders of the parent	₱ (5,676)	₱ 28,292	₱ 33,719	₱ 9,694
Non-controlling interests	2,901	2,207	5,253	4,683
	<b>₱ (2,774)</b>	<b>₱ 30,499</b>	<b>₱ 38,972</b>	<b>₱ 14,377</b>

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands)

	For the period ended June 30	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	P 52,549	P 43,633
Adjustments for:		
Equity in net (income) loss of associates	(20,177)	52,817
Depreciation and amortization	49,380	46,622
Interest income	(3,499)	(11,312)
Unrealized foreign exchange (gain) loss - net	2,448	2,289
Provision for bad debts	2,400	3,000
Movements in accrued retirement benefits payable	(377)	(2,614)
Financing charges	2,193	-
Loss (gain) on sale of asset		(18,061)
Operating income before working capital changes	84,919	116,374
Decrease (increase) in:		
Receivables	(42,907)	(209,489)
Inventories	52	2,847
Other current assets	(50,945)	(12,063)
Increase (decrease) in accounts payable and accrued liabilities	35,085	68,205
Cash generated from (used in) operations	26,204	(34,126)
Interest received	3,499	11,312
Financing charges paid	(93)	(61)
Income taxes benefit, including creditable withholding taxes	(9,689)	(11,460)
Net cash from (used in) operating activities	P 19,921	P (34,335)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investment in bonds	-	385,337
Increase in other noncurrent assets	(27,894)	(55,002)
Acquisitions of property and equipment	(120,080)	(23,779)
Dividends received	10,000	12,000
Net cash from (used in) investing activities	P (137,974)	P 318,556
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid		(81,222)
Proceeds from availment of notes payable	81,530	-
Payments of notes payable	(11,164)	-
Net cash from (used in) financing activities	P 70,366	P (81,222)
<b>EFFECT OF EXCHANGE RATE CHANGES</b>		
ON CASH AND CASH EQUIVALENTS	(2,426)	6,023
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	P (50,114)	P 209,022
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	867,381	642,811
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 817,267	P 851,833

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Thousand Pesos)

	Attributable to the Equity Holders of the Parent											
	Capital Stock	Additional Paid-in Capital	Share in Foreign Currency Translation Adjustment of an Associate	Remeasurements on Defined Benefit Plan	Share in Remeasurements on Defined Benefit Plan of Associates	AFS Investments Reserve	Treasury Shares	Retained Earnings			Non-controlling Interest	Total
							Appropriated	Unappropriated	Subtotal			
<b>BALANCES AT DECEMBER 31, 2012, as previously reported</b>	1,250,000	281,437	(223,144)			29,854	(49,419)	788,100	819,372	2,896,201	64,262	2,960,463
Change in accounting policy			2,878	9,011	(112,696)				16,246	(84,561)	839	(83,722)
<b>Restated balance</b>	<b>1,250,000</b>	<b>281,437</b>	<b>(220,266)</b>	<b>9,011</b>	<b>(112,696)</b>	<b>29,854</b>	<b>(49,419)</b>	<b>788,100</b>	<b>835,618</b>	<b>2,811,640</b>	<b>65,101</b>	<b>2,876,741</b>
Total comprehensive income (loss)			2,855	(34)		(18,061)			24,866	9,626	4,683	14,309
Cash dividends at P0.065 per share									(84,171)	(84,171)		(84,171)
Cash dividends received by non-controlling interest											(4,000)	(4,000)
<b>BALANCES AT JUNE 30, 2013</b>	<b>P 1,250,000 P</b>	<b>281,437 P</b>	<b>(217,411)</b>	<b>8,977</b>	<b>(112,696)</b>	<b>11,793</b>	<b>(49,419) P</b>	<b>788,100</b>	<b>776,313</b>	<b>2,737,095 P</b>	<b>65,784 P</b>	<b>2,802,879</b>
<b>BALANCES AT DECEMBER 31, 2013</b>	<b>1,250,000</b>	<b>281,437</b>	<b>(176,800)</b>	<b>11,283</b>	<b>(155,662)</b>	<b>2,689</b>	<b>(49,419)</b>	<b>788,100</b>	<b>585,399</b>	<b>2,537,027</b>	<b>62,168</b>	<b>2,599,195</b>
Total comprehensive income (loss)			230						33,488	33,718	5,253	38,971
<b>BALANCES AT JUNE 30, 2014</b>	<b>P 1,250,000 P</b>	<b>281,437 P</b>	<b>(176,570)</b>	<b>11,283</b>	<b>(155,662)</b>	<b>2,689</b>	<b>(49,419) P</b>	<b>788,100</b>	<b>618,887</b>	<b>2,570,745 P</b>	<b>67,421 P</b>	<b>2,638,166</b>

**LUFTHANSA TECHNIK PHILIPPINES, INC.**  
**SUMMARIZED INTERIM STATEMENTS OF INCOME**

(In Thousands)

	January to June	
	(Unaudited)	
	2014	2013
REVENUE	P 2,875,019	P 3,985,003
LESS: COST OF SALES	724,695	2,023,407
GROSS PROFIT	2,150,324	1,961,596
LESS: OPERATING EXPENSES	2,006,569	1,908,203
LOSS FROM OPERATIONS	143,755	53,393
LESS/ (ADD): OTHER CHARGES/(INCOME)	81,688	162,160
LOSS BEFORE INCOME TAX	62,067	(108,767)
LESS: PROVISION FOR INCOME TAX	37,196	15,308
NET LOSS	P 24,871	P (124,075)
EQUITY SHARE IN NET LOSS (49%)	P 12,187	P (60,797)

**CEBU PACIFIC CATERING SERVICES**  
**SUMMARIZED STATEMENTS OF INCOME**

(In Thousands)

	<b>January to June</b>	
	<b>(Unaudited)</b>	
	<b>2014</b>	<b>2013</b>
REVENUE	<b>P 64,491 P</b>	63,643
LESS: COST OF SALES	<b>37,069</b>	38,232
GROSS PROFIT	<b>27,422</b>	25,411
LESS: OPERATING EXPENSES	<b>5,997</b>	4,593
INCOME FROM OPERATIONS	<b>21,425</b>	20,818
LESS/ (ADD): OTHER CHARGES/(INCOME)	<b>25</b>	(459)
INCOME BEFORE INCOME TAX	<b>21,400</b>	21,277
LESS: PROVISION FOR INCOME TAX	<b>1,425</b>	1,328
NET INCOME	<b>P 19,975 P</b>	19,948
EQUITY SHARE IN NET INCOME (40%)	<b>P 7,990 P</b>	7,979

## **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Corporate Information and Business Operations**

#### Corporate Information

MacroAsia Corporation (the Company or MAC), a publicly-listed corporation, was incorporated in the Philippines on February 16, 1970 under the name Infanta Mineral & Industrial Corporation to engage in the business of geological exploration and development. On January 26, 1994, its Articles of Incorporation was amended to change its primary purpose from exploration and development to that of engaging in the business of a holding company, and change its corporate name to Cobertson Holdings Corporation. On November 6, 1995, the Company's Articles of Incorporation was again amended to change its corporate name to its present name. Its registered office address is at 12<sup>th</sup> PNB Floor, Allied Bank Center, 6754 Ayala Avenue, Makati City.

#### Business Operations

The principal activities of the Company and its subsidiaries (collectively referred to as the Group) are described in Note 4. The Company, through its subsidiaries and associates, is presently engaged in aviation-support businesses at the Ninoy Aquino International Airport (NAIA), Manila Domestic Airport (MDA), Mactan-Cebu International Airport (MCIA), Kalibo International Airport (KIA) and the General Aviation Areas. It provides in-flight catering services, ground handling services for passenger and cargo aircraft, and helicopter charter flight services. It also operates/develops the sole economic zone within the NAIA. In 2012, the Company, through MacroAsia Catering Services, Inc. (MACS), ventured to its first foreign business in Qatar to establish an institutional catering and laundry company. Through MACS, the Company, is now providing the food requirements of some passenger terminal lounges in NAIA. It has also ventured into the provision of the food service requirements of non-airline institutional clients outside the airport. Considering the expertise of staff gained through the exploration of the Company's Infanta Nickel Project in Palawan, the Company, through MacroAsia Mining Corporation (MMC) also started providing nickel exploration services for other mining companies. Through MacroAsia Properties Development Corporation (MAPDC), the Company started pursuing projects related to reclaimed water supply, bulk water supply using surface water sources, and water distribution in areas outside of Metro Manila.

Through Lufthansa Technik Philippines, Inc. (LTP), an associate with a maintenance, repairs and overhaul facility in the Philippines, the Company provides globally competitive heavy maintenance and engineering services for specific models of Airbus and Boeing aircraft for airline clients all over the world.

## **2. Summary of Significant Accounting and Financial Reporting Policies**

### **Basis of Preparation**

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments, which are carried at fair value. The interim condensed consolidated financial statements are presented in Philippine peso (₱), the Company's functional and presentation currency. Amounts are rounded to the nearest thousands unless otherwise indicated.

### **Statement of Compliance**

The interim condensed consolidated financial statements for the six-month period ended June 30, 2014 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of December 31, 2013.

### **Changes in Accounting Policies and Disclosures**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014. Except as otherwise indicated, the new standards and amendments have no significant impact on the annual consolidated financial statements of the Group or the condensed interim consolidated financial statements of the Group.

- **Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)**  
These provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not relevant to the Group since it has no investment entity under PFRS 10.
- **Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)**  
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 will have a material financial impact in future financial statements.
- **PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)**  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The adoption of the amendment has no significant impact on the consolidated

financial statements since the Group has no novation of derivatives during the current period.

- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The Group reviewed its existing employee benefits and determined that the amended standard has no significant impact on its accounting for retirement benefits.

The Group has not early adopted any other standard, interpretation or amendments that has been issued but is not yet effective.

#### Annual Improvements to PFRS (2010-2012 cycle)

The Annual Improvements to PFRS (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition.* This amendment does not apply to the Group as it has no share-based payments.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination.* The Group shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets.* The amendments affect presentation only and have no impact on the Group’s financial position or performance.
- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables.* The amendment has no significant impact on the Group’s financial position or performance.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*. The amendment has no impact on the Group's financial position or performance.
- PAS 24, *Related Party Disclosures - Key Management Personnel*. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*. The amendments have no impact on the Group's financial position or performance.

#### Annual Improvements to PFRS (2011-2013 cycle)

The Annual Improvements to PFRS (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*. The Group shall consider this amendment for future business combination.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*. The amendment has no significant impact on the Group's financial position or performance.
- PAS 40, *Investment Property*. The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment has no significant impact on the Group's financial position or performance.
- PFRS 9, *Financial Instruments*. PFRS 9 as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have

deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its direct subsidiaries and the subsidiaries of MAPDC, which were all incorporated in the Philippines and are registered with the Philippine Securities and Exchange Commission, as of date of reporting.

	Nature of business	Percentage of direct ownership by MAPDC		Percentage of ownership by MAC			
				Jun-14		Dec-13	
		Jun-14	Dec-13	Direct	Indirect	Direct	Indirect
MacroAsia Air Taxi Services, Inc. (MAATS)	Helicopter chartering services			100		100	
MacroAsia Properties Development Corporation (MAPDC)	Economic Zone (Ecozone) developer/operator			100		100	
MacroAsia Airport Services Corporation (MASCORP)	Groundhandling aviation services			100		100	
Airport Specialists' Services Corporation (ASSC)*	Manpower services			100		100	
MacroAsia Catering Services, Inc. (MACS)	In-flight and other catering services			80		80	
MacroAsia Mining Corporation (MMC)	Mine exploration, development and operation			100		100	
Panay Water Business Resources, Inc. (PWBRI)**	Water Projects	90	90		90		90
SNV Resources Development Corporation (SNVRDC)**	Water Projects	100	100		100		100
Dragon Resources Development Corporation**	Water Projects	100	100		100		100

\*Ceased commercial operations effective May 1, 2001.

\*\*Effective ownership interest through MAPDC

Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The consolidated financial statements comprise the financial statements of the Company, its direct subsidiaries and subsidiaries of MAPDC as of June 30, 2014 (unaudited) and December 31, 2013 (audited). The financial statements of the subsidiaries are prepared for the same reporting period using accounting policies that are consistent with those of the Company. All significant intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

#### Non-controlling Interests

Non-controlling interest represents the portion of the net assets of consolidated subsidiaries not held by the Group. Non-controlling interest is presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within the equity section of the consolidated balance sheet, separate from the Company's equity. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group 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: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in the consolidated statement of income; and (g) reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained; (h) earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Prior to January 1, 2010, acquisition of non-controlling interest was 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 as goodwill. After the initial recognition, goodwill is measured at cost less accumulated impairment loss.

The goodwill recognized by the Group amounting to ₱17.53 million as of June 30, 2014 and December 31, 2013 resulted from the Company's acquisition of non-controlling interest (13%) from a previous stockholder of MACS in 2006. The carrying amount of goodwill is allocated to MACS, the cash-generating unit.

#### *Acquisition of non-controlling interests*

On April 30, 2007, the Company acquired the 30% minority interest of Menzies in MASCORP, increasing the Company's ownership from 70% to 100%. The acquisition was made for a consideration of US\$162,698 (or about ₱7.8 million). The book value of the net assets acquired at acquisition date was about ₱18.2 million, and the excess of such net book value over the acquisition cost, amounting to ₱10.4 million was accounted for as a negative goodwill recognized in the 2007 consolidated statement of income.

In relation to the divestment of Menzies, MAC paid ₱9.4 million for Menzies' 30% share in the Deposit for Future Stock Subscription in MASCORP. With MAC being the whole owner of the deposits, the entire Deposit for Future Stock Subscription amounting to ₱30.66 million was eliminated upon consolidation.

In December 2012, MAC paid for the paid up subscription of all of the previous non-controlling stockholders of MMC bring MAC's ownership over MMC from 67% to 100%. The carrying value of the interest acquired as of date amounted to ₱2.0 million.

### **3. Significant Judgments and Accounting Estimates**

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to exercise judgments, make estimates and use assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the consolidated financial estimates are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

#### **Judgments**

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

#### *Determination of the Company's functional currency*

Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group. These include the prices of goods and services, competition,

cost and expenses, and other factors including the currency in which financing is primarily undertaken. Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of the Group rather than being carried out with significant autonomy.

The Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be Peso. It is the currency of the primary economic environment in which the Group operates. The functional currency of LTP, one of the Group's associated companies has been determined to be US\$.

#### *Classification of financial instruments*

The Group classifies a financial instrument, or its components, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial liability, a financial asset or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

#### *Impairment of AFS investments*

For AFS debt investments, the Company assesses the counterparty's ability to comply with the contractual obligations to pay out principal and interest. Further, the company assesses whether the market prices of these bonds indicate objective evidence of impairment. Based on management's assessment there is no objective evidence of impairment on its investment in bonds, especially as the counterparties are able to pay the contractual payments. The carrying value of AFS debt investments amounted to ₱106.6 million as of June 30, 2014 and December 31, 2013, respectively.

For AFS equity investments, management exercised judgment in assessing whether the quoted market price of the AFS equity investments at reporting date indicated an impairment vis-à-vis the cost. Management assesses that impairment is sustained once the decline in value reaches 20% of cost or that the decline in value persisted for more than 12 months. In 2012, the Group determined that its investment in one club share is impaired. Impairment loss recognized directly to profit or loss amounted to ₱0.4 million. No impairment loss was recognized for the current year. The carrying value of AFS equity investment amounted to ₱30.2 million as of June 30, 2014 and December 31, 2013, respectively.

*Accounting for acquisition of Watergy Business Solutions, Inc. (WBSI) shares and water project*

As discussed in Note 14 to the audited consolidated financial statements as of December 31, 2013, on July 11, 2011, MAPDC acquired the 70% of the shares of stock of WBSI pursuant to a share purchase agreement between MAPDC and the former stockholders of WBSI. On the same date, MAPDC entered into a sale and purchase agreement for the acquisition of Maragondon Bulk Water Supply Project (the Water Project) from Islington Capital Holdings, Inc. (ICH). On September 15, 2011, MAPDC signed amended sale agreements with stockholders of WBSI and ICH, related to the acquisition of additional 12.6% shares over WBS and rights to the Water Project, respectively. As of December 31, 2013, the sale and purchase agreement has not been consummated in view of certain permits inherent in the Water Project that are yet to be secured.

Prior to MAPDC's acquisition of WBSI shares, WBSI assigned and transferred its rights over the Water Project to ICH on September 15, 2010. Having regard to the substance of the agreements, the acquisition of WBSI shares is deemed to be linked to the acquisition of the Water Project from ICH and as such, the acquisition is treated as one transaction for accounting purposes.

As of May 9, 2014, the Water Project acquisition, including the purchase of the remaining third-party shares in WBS, has been consummated, with MAPDC acquiring full interest over the project and WBS. As of June 30, 2014, the investment in WBSI shares are still presented as part of "Project advances and investment" under the "Deposits and other noncurrent assets" account in the consolidated balance sheets.

*Classification of lease arrangements – the Group as Lessee and Lessor*

The Group has property leases where it has determined that the risks and rewards related to such property are retained with the lessor (e.g., no transfer of ownership of leased assets by the end of the lease term). Both the lease and sub-lease agreements are accounted for as operating leases. Operating lease income and expenses are recognized on a straight line basis over the lease term unless another systematic basis is representative of the time pattern of the Company's benefit.

*Determination of indicators of impairment of nonfinancial assets*

The Group assesses at each reporting date whether there is any indication that investment in associates, property and equipment and investment property may be impaired. Also, the Group assesses whether facts and circumstances suggest that the carrying amount of deferred mined exploration costs may exceed its recoverable amount.

The factors that the Group considers important which could trigger an impairment review included the following, among others:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the overall business strategy; and
- Significant negative industry or economic trends.

In 2013, an impairment test was made on the Group's investment in LTP primarily due to losses incurred by LTP. The recoverable amount has been determined based on a value-in-use calculation using cash flow projections based on financial budgets as approved by management covering a three-year projection. The projected cash flows was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth based on management's future plans. Cash flows beyond the three year period are extrapolated into perpetuity assuming a zero growth rate, for impairment test purposes. The discount rate was a pre-tax measure based on the weighted average cost of capital of listed entities with similar assets or similar in terms of potential risk. The discount rate used in 2013 is 13%. Based on management's evaluation as of December 31, 2013, the Company's investment in LTP is not impaired.

Management believes that no reasonably possible change in these key assumptions would cause the carrying value of the cash generating unit to materially exceed its recoverable amount.

Except for the Group's investment in LTP, management believes there are no impairment indicators on its investments in associates, property and equipment and investment property and deferred mine exploration cost as of June 30, 2014 and December 31, 2013.

### **Estimates and Assumptions**

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts of the Group's assets and liabilities follow:

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

When the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair values is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these assumptions about these factors could affect the reported fair value of financial instruments. See Note 9 for further disclosures.

#### *Estimation of allowance for doubtful accounts*

Allowance for doubtful accounts is provided for accounts that are specifically identified to be doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts, such as historical performance of counterparties, among others.

In addition to specific allowance against individually significant receivables primarily from airline customers, the Group also assesses, at least on an annual basis, a collective impairment allowance against credit exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on various factors such as historical performance of the counterparties within the collective group, deterioration in the markets in which the customers operate, various country or area risks, overall performance of the airline industry, and technological obsolescence which affects the confidence of the air transport market, as well as identified structural weaknesses or deterioration in the cash flows of counterparties.

The carrying value of the Group's receivables amounted to ₱410.7 million and ₱367.8 million as of June 30, 2014 and December 31, 2013, respectively. Allowance for doubtful accounts amounted to ₱12.5 million and ₱11.6 million as of June 30, 2014 and December 31, 2013, respectively.

*Determination of net realizable value (NRV) of inventories*

The Group estimates the NRV of inventories based on the most reliable evidence available at the time the estimates are made. These estimates consider the fluctuations of prices or costs directly relating to events occurring after the reporting date to the extent that such events affect the value of inventories. Other factors include the age and status of the inventories and the Group's experience on write-off and expirations.

The carrying value of inventories amounted to ₱47 million net of allowance for probable losses of ₱1.0 million as of June 30, 2014 and December 31, 2013, respectively.

*Estimating allowances for probable losses on input taxes and tax credit certificates (TCC)*

The Group estimates the level of provision for probable losses on input taxes and TCC based on the experience of the Group and assessment of counsels assisting the Group in processing the claims and negotiating the realization of TCC. As of June 30, 2014 and December 31, 2013, the carrying value of input taxes and TCC amounted to ₱216 million and ₱249 million, respectively. Allowance for probable losses amounted to ₱38.6 million and ₱37 million as of June 30, 2014 and December 31, 2013, respectively.

*Estimation of useful lives of property and equipment and number of flying hours of helicopter unit*

The Group estimates the useful lives of property and equipment and number of flying hours of helicopter unit based on the internal technical evaluation and experience with similar assets. Estimated useful lives and number of flying hours are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. There is no change in the estimated useful lives of property and equipment and number of flying hours in June 30, 2014 and December 31, 2013.

The carrying value of property and equipment as of June 30, 2014 and December 31, 2013 amounted to ₱450 million and ₱379.2 million, respectively.

### *Estimation of retirement benefits costs and obligation*

The cost of defined benefit pension plans, as well as the present value of the pension obligation is, determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates and future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All significant assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds, adjusted to zero coupon rates, with term consistent with the obligation of the plan.

Accrued retirement benefits payable amounted to ₱28.4 million and ₱28.8 million as of June 30, 2014 and December 31, 2013, respectively. Pension assets amounted to ₱0.5 million and ₱0.5 million as of June 30, 2014 and December 31, 2013, respectively, and is included under “Deposit and other noncurrent assets” account. Retirement benefits cost amounted to ₱2.4 million as of June 30, 2014.

### *Recognition of deferred income tax assets*

The Group reviews the carrying amounts of deferred income tax assets (gross of deferred income tax liabilities) at each reporting date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The determination of future taxable income, which will establish the amount of deferred income tax assets that can be recognized, requires the estimation and use of assumptions about the Group’s future income and timing of reversal of temporary differences, unused NOLCO and excess MCIT.

Gross deferred income tax assets recognized which relates primarily to operating subsidiaries amounted to ₱23.2 million and ₱16.9 million as of June 30, 2014 and December 31, 2013, respectively. The Group also has unrecognized deferred income taxes primarily on the Company’s and non-operating subsidiaries’ temporary differences, NOLCO and MCIT.

### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires the estimation of value-in-use of the cash generating unit to which goodwill relates. Estimating the value-in-use requires management to make an estimate of the expected future cash flows from the CGU (cash generating unit) and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For the purpose of impairment testing, goodwill has been allocated to MACS, the cash generating unit. The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets as approved by management covering a three-year projection. The projected cash flows was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth based on management’s future plans. Cash flows beyond the

three year period are extrapolated into perpetuity assuming a zero growth rate, for impairment test purposes. The discount rate was a pre-tax measure based on the weighted average cost of capital of listed entities with similar assets or similar in terms of potential risk. The discount rate used in 2013 and 2014 is 9%.

Management believes that no reasonably possible change in any of the above assumptions would cause the carrying value of the related investment to exceed its recoverable amount.

Based on management's assessment, the recoverable amount of the goodwill is higher than the carrying value, thus no impairment loss was noted on the goodwill with carrying amount of ₱17.5 million as of June 30, 2014 and December 31, 2013.

#### **4. Segment Information**

The Group's operating businesses are organized and managed separately according to the nature of the aviation-support services provided by the four operating subsidiaries and mining-related activities, which is the basis on which the Group reports its primary segment information. The Group also monitors its share in the results of operations of its associates (LTP and CPCS) that are accounted for using the equity method.

The operations of Group's segments are described as follows:

- In-flight and other catering segment, which is operated by MACS, refers to servicing of meal requirements of certain foreign and domestic passenger airlines at the NAIA and the MDA and of certain institutional accounts.
- Ground handling and aviation segment, which is operated by MASCORP and MAATS, refers to both ramp and passenger handling and aviation services to foreign airlines and domestic carriers at NAIA, MCIA and KIA.
- Charter flights segment, which is handled by MAATS, provides international and domestic chartered flights from its base at the General Aviation Area, MDA to any point within the Philippines, through alliances with other helicopter owners.
- Rental and administrative segment, which is primarily operated through MAPDC, pertains to the sub-lease of the MacroAsia Ecozone at NAIA, which MAPDC leases from Manila International Airport Authority (MIAA) with LTP as the anchor locator.
- Mining segment which pertains to mining-related activities of the Group, refers to expenditures for exploration activities and rendering of exploration-related services.
- Associates – this segment represents the Group's investments in associates that are accounted for using the equity method.

Currently, the Group has only one geographic segment. There were no inter-segment sales as of June 30, 2014 and December 31, 2013. Segment assets include the operating assets used by a segment and consist principally of cash and cash equivalents, receivables, inventories, other current assets and property and equipment, net of allowances, depreciation and any impairment in value. Segment liabilities include all operating

liabilities for and consist principally of notes payable, accounts payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes. Segment results pertain to operating income.

Financial information on the Group's business segments as of and for the period ended June 30, 2014 and 2013 are as follows:

(In Thousand Pesos)

REVENUE – External	April to June		January to June	
	2014	2013	2014	2013
In-flight and other catering services	<b>278,150</b>	256,468	<b>524,044</b>	502,039
Ground handling and aviation	<b>111,725</b>	101,575	<b>214,408</b>	206,813
Rental and administrative services	<b>46,981</b>	47,600	<b>93,980</b>	94,247
Mining	<b>7,598</b>	5,503	<b>7,598</b>	9,973
Charter flights service	<b>3,129</b>	4,278	<b>5,696</b>	4,607
<b>Total segment and consolidated revenue</b>	<b>447,584</b>	415,424	<b>845,726</b>	817,678

**RESULT – Segment result**

In-flight and other catering services	<b>20,723</b>	15,764	<b>37,520</b>	33,451
Ground handling and aviation	<b>5,951</b>	5,416	<b>7,509</b>	11,145
Rental and administrative services	<b>(629)</b>	1,503	<b>1,056</b>	3,585
Mining	<b>(2,563)</b>	936	<b>(8,349)</b>	814
Charter flights service	<b>(16)</b>	2,546	<b>254</b>	266
Share in net income (loss) of associates	<b>(16,797)</b>	(19,654)	<b>20,177</b>	(52,817)
<b>Total segment results</b>	<b>6,669</b>	6,509	<b>58,168</b>	(3,558)
Unallocated corporate income (expenses) and eliminations	<b>(2,851)</b>	48,894	<b>(5,618)</b>	47,190
Provision for income tax	<b>(7,331)</b>	(9,827)	<b>(13,809)</b>	(14,084)
<b>Consolidated net income (loss)</b>	<b>(3,512)</b>	45,577	<b>38,741</b>	29,549

**OTHER INFORMATION**

	Jun-14	Dec-13
<b>Segment assets</b>		
In-flight and other catering services	<b>689,385</b>	615,546
Rental and administrative services	<b>373,497</b>	240,070
Ground handling and aviation	<b>311,453</b>	316,192
Charter flights service	<b>42,605</b>	43,150
Mining	<b>28,313</b>	255,730
<b>Total segment assets</b>	<b>1,445,253</b>	1,470,688
Investment in associates	<b>472,168</b>	461,761
Investment property	<b>143,852</b>	143,852
Deferred tax asset	<b>23,212</b>	16,857
Unallocated corporate assets	<b>1,145,012</b>	979,696
<b>Consolidated total assets</b>	<b>3,229,497</b>	3,072,854

**Segment liabilities**

In-flight and other catering services	<b>378,500</b>	323,325
Rental and administrative services	<b>391,402</b>	214,182
Ground handling and aviation	<b>161,535</b>	172,775
Charter flights service	<b>11,365</b>	13,728
Mining	<b>40,292</b>	24,961
<b>Total segment liabilities</b>	<b>983,094</b>	748,971
Deferred tax liabilities	<b>415</b>	415
Eliminations	<b>(333,785)</b>	(312,956)
Unallocated corporate liabilities	<b>(58,393)</b>	37,230
<b>Consolidated total liabilities</b>	<b>591,331</b>	473,660

<b>Capital expenditures</b>	April to June		January to June	
	<b>2014</b>	2013	<b>2014</b>	2013
In-flight catering services	<b>9,352</b>	6,960	<b>15,359</b>	8,720
Rental and administrative services		(1,081)	<b>91,324</b>	(701)
Ground handling and aviation	<b>4,561</b>	3,175	<b>4,561</b>	9,702
Charter flights service	<b>72</b>	1,703	<b>72</b>	2,980
Mining	<b>4,492</b>	904	<b>4,492</b>	916
<b>Total</b>	<b>18,477</b>	11,661	<b>115,808</b>	21,617
<b>Depreciation &amp; amortization</b>				
In-flight catering services	<b>13,353</b>	12,533	<b>26,479</b>	24,939
Rental and administrative services	<b>537</b>	565	<b>1,065</b>	1,150
Ground handling and aviation	<b>7,846</b>	6,765	<b>15,689</b>	13,183
Charter flights service	<b>349</b>	405	<b>699</b>	696
Mining	<b>935</b>	693	<b>989</b>	1,499
Unallocated corporate depreciation and amortization	<b>23,020</b>	4,192	<b>5,117</b>	5,155
<b>Total</b>	<b>46,040</b>	25,153	<b>50,037</b>	46,622
<b>Non cash expenses other than depreciation &amp; amortization</b>				
In-flight catering services	<b>1,100</b>	1500	<b>2,400</b>	3,000

## 5. Basic/Diluted Earnings per Share

Basic/diluted earnings per share are computed as follows:

<i>(In thousand pesos except earnings per share)</i>	<b>Jun-14</b>	<b>Dec-13</b>	<b>Jun-13</b>
Net income attributable to equity holders of the parent	<b>33,488</b>	(170,048)	24,866
Divided by weighted average number of common shares	<b>1,233,404</b>	1,233,404	1,233,404
	<b>0.0272</b>	(0.1379)	0.0202

## 6. Equity

### a. Restriction on retained earnings of the Company:

The retained earnings is restricted for dividend declaration for the portion equivalent to the following:

- Undistributed earnings of subsidiaries and equity in net earnings of associates amounting to ₱365 million and ₱325.9 million as of June 30, 2014 and December 31, 2013, respectively.
- Cost of treasury shares amounting to ₱49.4 million as of June 30, 2014 and December 31, 2013.
- Deferred income tax asset amounting to ₱3.9 million as of December 31, 2013 (nil as of June 30, 2014 and December 31, 2012).

b. Appropriation of retained earnings

On September 26, 2012, MACS' BOD approved the appropriation of MACS' retained earnings amounting to ₱50.0 million for various investments to expand business and renovation of facilities of MACS. On December 31, 2013, MACS' BOD has allotted this appropriation for the operation of an offsite commissary within the next two (2) years.

On June 21, 2012, MASCORP's BOD approved to appropriate ₱30.0 million of the unappropriated retained earnings for business expansion. The expansion program is expected to run for two (2) years.

On December 12, 2011 and July 15, 2011, the Company's BOD approved the appropriation of the Company's retained earnings amounting to ₱393.1 million and ₱300.0 million, respectively, for the mining development projects and water project, respectively. The water project is expected to be completed and operational on the first quarter of 2015. As to the mining project, the Company intends to start development activities and mining operations on 2015, after the period allotted for the extension of exploration, if on-going studies indicate favorable economics.

On December 12, 2011, the MAATS' BOD authorized and approved the appropriation of its retained earnings which amounted to ₱15.0 million for purposes of expanding the business of MAATS, particularly the acquisition of an aircraft hangar. Acquisition is to be made in 2015 or earlier.

c. Cash dividends declared by the Company from the retained earnings are as follows:

<u>Date Approved</u>	<u>Per Share</u>	<u>Stockholder of Record Date</u>	<u>Date Paid/Issued</u>
March 25, 2013	₱0.065	April 24, 2013	May 19, 2013
March 7, 2012	₱0.065	April 24, 2012	May 18, 2012
March 21, 2011	₱0.065	April 25, 2011	May 19, 2011

- On March 25, 2013, the BOD approved the declaration of cash dividend of ₱0.065 per share, payable on or before May 19, 2013 to stockholders of record as of April 24, 2013.
- On March 18, 2013, the BOD of CPCS approved the declaration of ₱30 million cash dividends payable on or before April 30, 2013 to its stockholders.
- On March 27, 2013, the BOD of MACS approved the declaration of ₱20 million cash dividends payable on or before May 15, 2013 and another ₱20 million cash dividends payable on or before December 31, 2013 to its stockholders.
- On December 10, 2013, the BOD of MASCORP approved the declaration of ₱38.05 million stock dividends.
- On December 10, 2013, the BOD of MACS approved the declaration of ₱20 million cash dividends payable on or before April 15, 2014 to its stockholders.

d. Treasury stock

On July 16, 2010, the BOD approved the Share Buyback Program (the Program) involving a total cash outlay of ₱50.0 million for the repurchase of the outstanding

common shares of the Company from the market, using the trading facilities of the Philippine Stock Exchange (PSE). The Program will not involve any active or widespread solicitation for stockholders to sell. Repurchase of shares of stock will be done during the period of the Program at such prices perceived by the Company to be lower than the inherent value of the share. The Program will run until the ₱50.0 million authorized cash outlay is fully utilized or until such time that the BOD may direct, subject to appropriate disclosures to the PSE and the SEC.

There was no reacquisition of shares in the current year and in 2013. In 2012 and 2011, the Company has reacquired 6,125,000 shares for ₱17.5 million and 7,486,000 shares for ₱23.2 million, respectively.

e. Movement in the Company's outstanding shares are as follows:

Issued shares as of December 31, 2010	1,247,015,000
Acquisition of treasury shares in 2011	7,486,000
<hr/>	
Outstanding shares as of December 31, 2011	1,239,529,000
Acquisition of treasury shares in 2012	6,125,000
<hr/>	
Outstanding shares as of December 31, 2012, 2013 and June 30, 2014	1,233,404,000
<hr/>	

f. Track record of registration of securities

On August 30, 1974, the SEC authorized the registration and licensing of the Company's securities with total par value of ₱20.0 million divided into 2,000,000,000 shares with a par value of ₱0.01 per share.

On March 22, 2000, the Philippine Stock Exchange, Inc. authorized to list the Company's 750,000,000 shares, with a par value of ₱1.00 per share and 500,000,000 warrants divided into the following:

- a. 250,000,000 shares to cover the 1:4 stock rights offering to stockholders of record as of April 12, 2000 at an offer price of ₱2.00 per share;
- b. 500,000,000 warrants to cover the 2:1 warrants offering attached to and detachable from the rights shares at a subscription price of ₱0.10 per warrant; and
- c. 500,000,000 shares to cover the underlying shares of warrants at an exercise price of ₱6.00 per share. Actual listing of the underlying common shares of the warrants shall take effect upon the exercise of the warrants.
- d. All warrants expired in 2005.

MAC's shares are listed and traded at the Philippine Stock Exchange, Inc. and the approximate number of holders of its common equity as of June 30, 2014 and December 31, 2013 are 866 and 867, respectively.

g. Cash dividends received by non-controlling interest

- I. On December 10, 2013, MACS' BOD approved the declaration of cash dividends amounting to ₱20.0 million or ₱16 per share payable on or before April 15, 2014.

On March 27, 2013, MACS' BOD approved the declaration of cash dividends amounting ₱20.0 million or ₱16 per share payable on or before May 15, 2013 and another ₱20.0 million or ₱16 per share payable on or December 31, 2013. This was fully paid in 2013.

Dividends attributed to non-controlling interest amounted to ₱12.0 million in 2013.

- II. On March 2, 2011, the BOD of MACS approved the declaration of cash dividend amounting to ₱10.0 million or ₱8 per share on MACS' 1,250,000 issued and outstanding shares payable to stockholders on record as of declaration date. This was fully paid in 2012. Dividends attributed to non-controlling interest amounted to ₱2.0 million.

h. Acquisition of non-controlling interest

In December 2012, MAC paid for the paid up subscription of all of the previous non-controlling stockholders of MMC bringing MAC's ownership over MMC from 67% to 100%. The carrying value of the interest acquired as of that date amounted to ₱2.1 million.

## **7. Capital Management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders and repurchase or issue new shares. The Group is not subject to externally imposed capital requirements as of June 30, 2014 and December 31, 2013. Further, no changes were made in the objectives, policies or processes for the six-month period ended June 30, 2014, December 31, 2013 and December 31, 2012.

The Group monitors capital vis-à-vis after tax profit. The Group also monitors the equity ratio. Equity considered by the Group is total equity in the consolidated balance sheets, excluding items arising from other comprehensive income. The return on equity ratio is computed by dividing the after tax profit by total capital.

The following summarizes the total capital considered by the Group and the computation of the return on equity:

	<b>30-Jun-14</b>	31-Dec-13	30-Jun-13
Capital stock	<b>1,250,000</b>	1,250,000	1,250,000
Additional paid in capital	<b>281,437</b>	281,437	281,437
Treasury shares	<b>-49,419</b>	-49,419	-49,419
Retained earnings	<b>1,406,987</b>	1,373,499	1,554,116
	<b>2,889,005</b>	2,855,517	3,036,134
Net income after tax	<b>38,741</b>	-160,843	29,549
Return on equity	<b>1.34%</b>	-5.63%	0.97%

## **8. Financial Risk Management Objectives and Policies**

### **Risk Management Structure**

#### *Audit Committee*

The Committee performs oversight role on financial management functions especially in the areas of managing credit, market, liquidity, operational, legal and other risks of the Group.

#### *Risk Management Committee*

The Committee assists the BOD in identifying and assessing the various risks to which the Group is exposed to. The Committee also ensures that the Group's management has implemented a process to identify, manage and report on the risks that might prevent the Group from achieving its strategic objectives.

#### *Board of Directors*

The BOD is responsible for the overall risk management approach and for approval of risk strategies and principles of the Group.

### **Financial Risk Management**

The Group's principal financial instruments comprise cash and cash equivalents and some external liabilities which were availed of primarily to fund operations. The Group has other financial assets and financial liabilities such as trade receivables and payables which arise directly from operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The BOD reviews and approves policies for managing these risks and they are summarized as follows:

#### *Foreign currency risk*

The Group's transactional currency exposure arises from sales in currencies other than its functional currency and retaining its cash substantially in currency other than its functional currency. Approximately 80% of sales are denominated in US\$. Starting in 2009, the

Company and MACS enter into forward contracts to mitigate this risk. In addition, the Group closely monitors the foreign exchange rates fluctuations and regularly assesses the impact of future foreign exchange movements on its operations.

The following table demonstrates the impact on the Group's income before income tax and equity of reasonably possible changes in the US\$, with all other variables held constant:

<i>(in millions)</i>	Movement in US\$	Net Effect on Income/Loss before Income Tax US\$
2014	Increase of 5%	10.2
	Decrease of 5%	(10.2)
2013	Increase of 5%	13.4
	Decrease of 5%	(13.4)
2012	Increase of 4%	(11.6)
	Decrease of 4%	11.6

#### *Credit and concentration risk*

Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Group trades only with related parties and duly evaluated and approved creditworthy third parties. It is the Group's policy that all customers and counterparties that wish to trade with the Group, particularly on credit terms, are subjected to credit verification procedures. In addition, receivable balances are monitored on a continuous basis with the result that the Group's exposure to bad debts is not significant. The Group has no major concentration of credit risk given the Group's diverse base of counterparties. The Group has major concentration of credit risk given that the Group's cash and cash equivalents are deposited in the local affiliated bank. Further, MASCORP's major customers include PAL and Air Phil. MMC also has a single customer. However, since these companies are related parties and the local affiliated bank is one of the country's reputable banks, management believes that the Company is not exposed to any significant risk.

With respect to credit risk arising from other financial assets, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying values of these instruments. The Group only deals with financial institutions that have been approved by the BOD of the Company and those of its subsidiaries. The Group does not require any collateral and other credit enhancements.

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

The credit quality of financial assets is managed by the Group using internal credit ratings.

The tables below show the credit quality of the Group's financial assets and an aging analysis of past due but not impaired financial assets.

June 30, 2014 (in '000)	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard Grade	Sub-standard Grade		
<i>Loans and receivable:</i>					
Cash in bank and cash equivalents*	816,249	-	-	-	816,249
<i>Receivables:</i>					
Trade	125,211	36,253	39,240	125,259	325,963
Due from related party	33,911	-	-	-	33,911
Due from officers and employees	13,212	-	-	-	13,212
Interest receivable	2,537	-	-	-	2,537
Other receivables	27,064	-	-	-	27,064
Deposits	42,357	-	-	-	42,357
Project advances and investment**		31,785	-	-	31,785
<i>AFS investments</i>					
Retail treasury and corporate bonds	106,615	-	-	-	106,615
	<u>1,167,156</u>	<u>68,038</u>	<u>39,240</u>	<u>125,259</u>	<u>1,399,693</u>

\*Exclusive of cash on hand amounting to P1.02 million as of June 30, 2014

\*\*Exclusive of nonfinancial assets of P4,985 as of June 30, 2014

December 31, 2013 (in '000)	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard Grade	Sub-standard Grade		
<i>Loans and receivable:</i>					
Cash in bank and cash equivalents*	866,454	-	-	-	866,454
<i>Receivables:</i>					
Trade	93,627	27,108	29,341	152,375	302,451
Due from related party	38,762	-	-	-	38,762
Due from officers and employees	12,345	-	-	-	12,345
Interest receivable	2,709	-	-	-	2,709
Other receivables	14,652	-	-	3,371	18,023
Deposits	19,385	-	-	-	19,385
Project advances and investment**	-	15,572	-	-	15,572
<i>AFS investments</i>					
Retail treasury and corporate bonds	106,615	-	-	-	106,615
	<u>1,154,549</u>	<u>42,680</u>	<u>29,341</u>	<u>155,746</u>	<u>1,382,316</u>

\*Exclusive of cash on hand amounting to P0.926 as of December 31, 2013.

\*\*Exclusive of nonfinancial assets of P3,304 as of December 31, 2013.

The Group's financial assets are categorized based on the Group's collection experience with affiliates and third parties.

- High Grade – settlements are obtained from counterparty following the terms of the counterparty.
- Standard Grade – some reminder follow-ups are performed to obtain settlement from the counterparty.

- c. Sub-standard Grade – constant reminder follow-ups are performed to collect accounts from counterparty.
- d. Impaired – difficult to collect with some uncertainty as to collectability of the accounts.

Overall, the Group considers its high grade and standard grade accounts of good quality and it expects to collect all receivables except for impaired accounts where credit losses may be incurred.

*The aging analysis of past due but not impaired financial assets per class of financial assets*

	Past Due but not Impaired					Impaired	Total
	Less than 30 days	30 to 60 days	61 to 90 days	More than 90 days			
30-Jun-14	<b>49,260</b>	<b>27,223</b>	<b>12,036</b>	<b>24,257</b>		<b>12,484</b>	<b>125,259</b>
31-Dec-13	33,378	55,823	20,797	34,165		11,584	155,747

*Impairment assessment*

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group assesses impairment on an individual account basis.

Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention even at interim.

*Interest rate risk*

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's notes payable with floating interest rates. The Group has a practice of keeping its interest-bearing liabilities to third parties within a threshold that can be serviced through operating cash flows. Management closely monitors the behavior of interest rates to ensure that cash flow interest rate risk is kept within management's tolerable level. Finally, interest-bearing liabilities are ordinarily incurred on a short-term basis only.

The following table sets forth the estimated change in the Group's income before income tax (through the impact on the variable rate borrowings) due to parallel challenges in the interest rate curve in terms of basis points (bp) as of June 30, 2014, with all other variables held constant. There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

	Effect on Income before Income Tax June 30, 2014	Effect on Income before Income Tax December 31, 2013
100 bp rise	0.97 million	0.27 million
100 bp fall	(0.97million)	(0.27 million)
50 bp rise	0.49 million	0.14 million
50 bp fall	(0.49 million)	(0.14 million)

### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management engages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows which could be used to secure additional funding if required.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows, advances from related parties and short-term bank loans.

In addition, MASCORP has an available credit line for ₱20.0 million as of December 31, 2013. The line of credit is available through drawing of checks up to the approved credit line and will be effective up to November 2014.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual and undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. This table also analyses the maturity profile of the Group's financial assets in order to provide complete view of the Group's contractual commitments and liquidity.

As of June 30, 2014 (in '000)	< 1 year	>1-2 years	>2-3 years	>5 years	Total
Loans and receivables:					
Cash and cash equivalents	817,267	-	-	-	817,267
Receivables:					
Trade	325,151	-	-	-	325,151
Due from a related party	35,754	-	-	-	35,754
Due from officers and employees	13,212	-	-	-	13,212
Interest receivable	2,537	-	-	-	2,537
Other receivables	27,064	-	-	-	27,064
Deposits*	-	-	-	62,924	62,924
Project advances and investment**	31,785	-	-	-	31,785
AFS - debt	-	106,615	-	-	106,615
	<u>1,252,770</u>	<u>106,615</u>	<u>-</u>	<u>62,924</u>	<u>1,422,309</u>
Other financial liabilities:					
Accounts payable and accrued liabilities***	282,055	-	-	-	282,055
Notes Payable	14,922	48,933	15,467	18,044	97,366
Dividends payable	8,621	-	-	-	8,621
Deposit****	-	-	-	24,929	24,929
	<u>305,598</u>	<u>48,933</u>	<u>15,467</u>	<u>42,973</u>	<u>412,971</u>
Liquidity position	<u>947,172</u>	<u>57,682</u>	<u>(15,467)</u>	<u>19,951</u>	<u>1,009,338</u>

\*Inclusive of accretion of interest of P20,566

\*\* Exclusive of nonfinancial assets of P4,985 as of June 30, 2014.

\*\*\* Exclusive of nonfinancial liabilities of P28,429

\*\*\*\*Inclusive of accretion of interest of P19,966

As of Dec. 31, 2013 ('000)	< 1 year	>1-2 years	>2-3 years	>5 years	Total
Loans and receivables:					
Cash and cash equivalents	867,381	-	-	-	867,381
Receivables:					
Trade	290,867	-	-	-	290,867
Due from a related party	38,762	-	-	-	38,762
Due from officers and employees	12,345	-	-	-	12,345
Interest receivable	2,709	-	-	-	2,709
Other receivables	18,023	-	-	-	18,023
Deposits*	-	-	-	39,951	39,951
Project advances and investment**	15,572	-	-	-	15,572
Available for sale - debt	-	106,615	-	-	106,615
	1,245,659	106,615	-	39,951	1,392,225
Other financial liabilities:					
Accounts payable and accrued liabilities***	241,694	-	-	-	241,694
Notes payable	10,275	9,773	9,273	-	29,321
Dividends payable	12,621	-	-	-	12,621
Deposit****	-	-	-	24,589	24,589
	264,590	9,773	9,273	24,589	308,225
Liquidity position	981,069	96,842	(9,273)	15,362	1,084,000

\*Inclusive of accretion of interest of P20,566

\*\*Exclusive of nonfinancial assets of P3,304 as of December 31, 2013.

\*\*\*Exclusive of nonfinancial liabilities of P28,430.

\*\*\*\*Inclusive of interest to maturity P2,321.

\*\*\*\*\*Inclusive of accretion of interest of P19,967

## 9. Fair Value of Financial Instruments

The following is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reflected in the consolidated financial statements as of June 30, 2014 and December 31, 2013:

As at 30 June 2014		Fair value measurements using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Date of valuation	Carrying value		
<b>Assets measures at fair value:</b>				
Available for sale financial investments				
Government Securities		66,872	66,872	
Corporate bonds		39,743	39,743	
Golf club shares	June 30, 2014	30,138	30,138	
<b>Assets for which fair value is disclosed:</b>				
Investment property	June 30, 2014	143,852		143,852
Deposits	June 30, 2014	41,842		41,842
<b>Liabilities for which fair value is disclosed</b>				
Deposits	June 30, 2014	15,711		15,711

As at 31 December 2013

	Date of valuation	Carrying value	Fair value measurements using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measures at fair value:</b>					
Available for sale financial investments					
Government Securities		66,872	66,872		
Corporate bonds	December 31, 2013	39,743	39,743		
Golf club shares	2013	30,177	30,177		
<b>Assets for which fair value is disclosed:</b>					
Investment property	December 17, 2013	143,852			174,064
Deposits	December 31, 2013	30,767			30,767
<b>Liabilities for which fair value is disclosed</b>					
Deposits	December 31, 2013	16,005			16,005

There have been no transfers between Level 1 and 2 in 2014 and 2013.

*Cash and cash equivalents, receivables, accounts payables and accrued liabilities*

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

*Notes payable*

The carrying value of notes payable approximates its fair value due to the re-pricing feature of the interest it carries.

*AFS investments*

Fair value of the quoted notes and bonds is based on exit price at the reporting date.