

November 14, 2012

**PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Plaza,  
Ayala Triangle, Ayala Avenue,  
1226 Makati City, Philippines

Attention: *MS. JANET A. ENCARNACION*  
*Head – Disclosure Department*

RE: SEC Form 17-Q

Gentlemen:

We are submitting attached Quarterly Report (SEC Form 17-Q) for the third quarter of 2012 of Megawide Construction Corporation.

Thank you.

Very truly yours,

**MEGAWIDE CONSTRUCTION CORPORATION**

By:

  
**JOYCE M. BRIONES**  
Corporate Information Officer

# **MEGAWIDE CONSTRUCTION CORPORATION**

Company's Full Name

**2/F Spring Bldg.,  
Arnaiz Ave. cor. P. Burgos St., Pasay City**  
Company's Address

**655-1111**  
Telephone Number

**December 31**  
Fiscal Year Ending  
(Month & Day)

**SEC FORM 17 – Q**  
Form Type

**September 30, 2012**  
Period Ended Date

—  
-----  
(Secondary License Type and File Number)

**cc: Philippine Stock Exchange**

SECURITIES AND EXCHANGE COMMISSION

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 **September 30, 2012**
2. SEC Identification Number **CS200411461**
3. BIR Tax Identification No. **232-715-069-000**
4. Exact name of issuer as specified in its charter **Megawide Construction Corporation**
5. Province, Country or other jurisdiction of incorporation or organization **Philippines**
6. Industry Classification Code (SEC Use Only)
7. Address of Principal Office **2/F Spring Bldg. Arnaiz Ave. cor. P. Burgos St., Pasay City, Metro Manila**  
Postal Code
8. Issuer's telephone number, including area code **(02) 655-1111**
9. Former name, former address and fiscal year, if changed since last report **Not Applicable**
10. Securities registered pursuant to Section 8 and 12 of the SRC, or Section 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Stock</b>	<b>1,114,100,003</b>

11. Are any or all these securities listed on a stock exchange?

Yes [  ] No [  ]

If yes, state the name of such stock exchange and classes of securities listed therein:

**Philippine Stock Exchange** **Common Stock**

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder of 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 that the registrant was required to file such reports):

Yes  No

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

Yes  No

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

The interim Consolidated Financial Statements of Megawide Construction Corporation (“Megawide”) as of September 30, 2012 with comparative figures as of December 31, 2011 and September 30, 2012, Cash Flows and Schedule of Aging Accounts Receivable is incorporated by reference as Exhibit 1.

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*Review of results for the nine (9) months ended September 30, 2012 as compared with results for the nine (9) months ended September 30, 2011*

#### Results of Operations

#### Revenues and Cost of Construction

Megawide recorded a gross revenue of P5.61 billion as of the third quarter of 2012. There is an increase of 24% compared to revenues booked for the same period in 2011 amounting to P4.54 billion. The increase in contract revenues and its corresponding costs is mainly due to the following new projects: Linear, Studio City and Studio Zen of Filinvest Land, Inc., Jazz Phase 2 and Grass Tower 2 of SM Development Corporation (“SMDC”). Total revenue generated from these projects amounted to 1.34 billion as of the end of 3rd quarter. Operating efficiency improved significantly in 2012 due to better control on construction expenses. As a result, net income increased to P633 million from P357 million it earned during the same period in 2011.

***Review of financial condition as of September 30, 2012 as compared with financial condition as of December 31, 2011***

**Financial Condition**

As of the end of the third quarter of 2012, total assets stood at P9.93 billion, 27% higher than P7.83 billion as of the end of 2011. Current assets grew by 21% due to the increase in short-term investments by 157% because Megawide invested its cash in short-term money market products that significantly contributed to the decrease in cash and cash equivalents. In addition, trade and other receivables increased by 22% or P700 million because of the increase in accounts and retention receivables by P660 million and inventory by P208 million because of the additional raw materials of precast plant and unused construction materials for the on-going projects. Other current assets also increased by 119% due to the increase in excess input tax on local purchases by P123 million.

Meanwhile, non-current assets grew by 40% due mainly to the increase in property and equipment and other non-current assets which include deferred input tax on purchases of capital asset. Increase in property and equipment was a result of the additions of newly acquired precast plant machineries and construction equipment to support the existing and new projects of Megawide.

On the other hand, total liabilities registered an increase of 41%, from P3.92 billion as of the end of 2011 to P5.53 billion at the end of the third quarter of 2012. This is mainly due to the increase in Interest-bearing loans by 52% as a result of additional short-term bank loans for working capital use.

***Material Changes to Megawide's Income Statement for the Quarter Ended September 30, 2012 compared to the Income Statement for the Quarter Ended September 30, 2011 (increase/decrease of 5% or more)***

Material Changes to Megawide's Income Statement for the quarter ended September 30, 2012 compared to the Income Statement for the quarter ended September 30, 2011 are as follows:

- 24% increase in Contract Revenues  
Increase in Contract Revenues arising from accomplishments of new projects such as Linear, Studio City and Studio Zen of Filinvest Land, Inc., Jazz Phase 2 and Grass Tower 2 of SMDC.
- 21% increase in Contract Costs  
Increase in costs incurred from additional project accomplishments directly related to the increase in contract revenue.
- 28% increase in Operating Expenses  
Increase is due to the increase in activity and projects.

- 34% increase in Finance Income  
Increase in cash invested in short-term money market products.
- 146% increase in Finance Costs  
Higher interest expense incurred as Megawide availed a long-term loan via a P1.0 billion notes facility agreement with a local bank, availment of additional short-term loans for working capital use.
- 15,098% increase in other income  
The increase is solely attributable to the sale of government bills at a premium.
- 44% increase in Net Income  
Increase in contract revenues and operating efficiency.

***Material Changes to Megawide's Balance Sheet as of September 30, 2012 compared to the Balance Statement as of December 31, 2011 (increase/decrease of 5% or more)***

- 72% decrease in Cash and Cash Equivalents  
Due to placements made in short-term money market products to earn additional interest.
- 157% increase in Short-term Investments  
Placements in short-term money market products.
- 22% increase in Trade and other Receivables  
Increase in accounts and retention receivables by P660 million as of the 3<sup>rd</sup> quarter
- 119% increase in Other Current Assets  
There is an increase in excess input tax on local purchases during the year amounting to P123 million
- 41% increase in Property and Equipment  
Acquisition of precast plant machineries, construction and transportation equipment to support the operations of Megawide
- 34% increase in Other Non-Current Assets  
Increase in deferred input tax on purchases of fixed assets.
- 52% increase in Interest-bearing loans and borrowings, current and non-current portion  
Increase in finance lease for construction equipment and bank loans obtained from local banks for working capital requirements.
- 71% increase in Billings in excess of costs on uncompleted contracts  
Increase in revenue arising from newly started projects at the beginning of the year.
- 58% increase in Retained Earnings  
Additional net income recorded for the quarter.

There are no other material changes in Megawide’s financial position by five percent (5%) or more and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition of Megawide.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing Megawide’s liquidity in any material way. Megawide does not anticipate having any cash flow or liquidity problems. It is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

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

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of Megawide.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of Megawide.

There are no explanatory comments on the seasonality of interim operations. There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements of the interim period.

There are no material amounts affecting assets, liabilities, equity, net income or cash flows that are unusual in nature. Neither are there changes in estimates of amounts reported in prior interim period of the current financial year.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flows**

The following table sets forth information from Megawide’s pro forma statements of cash flows for the periods indicated:

<b>(Amounts in P millions)</b>	<b>For nine (9) months ended September 30</b>	
<b>Cash Flow</b>	2012 (unaudited)	2011 (unaudited)
Net cash provided by operating activities	<b>634</b>	<b>120</b>
Net cash used in investing activities	<b>(2,306)</b>	<b>( 2,193)</b>
Net cash provided by financing activities	<b>641</b>	<b>2,622</b>

## **Indebtedness**

As of September 30, 2012, Megawide has not been in default in paying interests and principal amortizations.

Megawide is not aware of any events that will trigger direct or contingent financial obligations that are material to it, including any default or acceleration of an obligation.

## **RISK MANAGEMENT OBJECTIVES AND POLICIES**

Megawide is exposed to a variety of financial risks in relation to its financial instruments. Its risk management is coordinated with the Board of Directors, and focuses on actively securing Megawide's short-to-medium term cash flows by minimizing the exposure to financial markets.

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

### ***Market Risk***

#### *(a) Foreign Currency Risk*

Megawide has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, except for U.S. dollar and Euro denominated Cash in bank amounting to P1.34 million as of September 30, 2012.

#### *(b) Interest Rate Risk*

As at September 30, 2012, Megawide is exposed to changes in market rates through its short-term investments which are subject to 30 to 90 days repricing intervals. All other financial assets and liabilities have fixed rates.

### ***Credit risk***

Credit risk is the risk that a counterparty fails to discharge an obligation to Megawide. Megawide is exposed to this risk for various financial instruments, such as the granting loans and receivables to customers and placing deposits with local banks and investment in bonds.

Megawide continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Its policy is to deal only with creditworthy counterparties.

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



Cash and cash equivalents	<b>P 409,496,689</b>
Short-term investments	<b>2,000,670,032</b>
Trade and other receivables excluding advances to suppliers	<b>3,094,769,144</b>
Refundable security deposits	<u><b>11,628,442</b></u>
	<u><b>P 5,516,564,307</b></u>

(a) *Cash and Cash Equivalent and Short-term Investments*

The credit risk for cash and cash equivalents and short-term investments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings and government bonds which are considered secured. About 64% of Megawide's contract receivables as of September 30, 2012 due from SMDC. Megawide mitigates the concentration of its credit risk by regularly monitoring the age of its receivables from this customer and ensuring that collections are received within the agreed credit period.

(b) *Trade and Other Receivables*

Contract receivables are usually due within 30 to 60 days and do not bear any interest. Some of the unimpaired trade receivables are past due as at the end of the reporting period. No other financial assets are past due at the end of the reporting period. The trade receivables that are past due but not impaired are as follows:

Not more than 3 months	<b>P 1,072,148,677</b>
More than 3 months but not more than 4 months	<b>427,504,890</b>
More than one year	<u><b>11,935,624</b></u>
	<u><b>P 1,511,589,191</b></u>

Megawide's management considers that the financial assets which are past due but not impaired for each reporting period are of good credit quality based on historical default rates. The balance of such receivables relates to reputable companies that have a good track record with Megawide.

(c) *Refundable Security Deposit*

Megawide is not exposed to any significant credit risk exposures to its lessors as lease agreements were executed with reputable entities. Megawide can negotiate, before the end of the lease term, to apply deposit to rentals due.

### ***Liquidity Risk***

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

Megawide maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at September 30, 2012 Megawide's financial liabilities have contractual maturities which are presented below.

	Current	Non-current
Interest-bearing loans and borrowings	P 1,337,000,237	P 1,182,207,802
Trade and other payables	<u>675,406,632</u>	<u>-</u>
	<b><u>P 2,012,406,869</u></b>	<b><u>P 1,182,207,802</u></b>

### **Financial Instruments**

Megawide categorized its financial instruments as financial asset and financial liabilities. Financial assets and financial liabilities are recognized when Megawide becomes a party to the contractual terms of the financial instrument.

Megawide's financial assets include fair value through profit and loss (FVTPL) and loans and receivables. FVTPL includes short-term placements and retail treasury bonds (RTB) that are measured at fair value, and changes therein are recognized in profit or loss. Loans and receivables include Cash and Cash Equivalents, Short-Term Investments and Trade and Other Receivables (excluding Advances to suppliers) in the statement of financial position. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that Megawide will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Financial liabilities, which include interest-bearing loans and borrowings, and trade and other payables [excluding output value-added tax (VAT) payable, unearned income and estimated liability on litigation claims] are measured at amortized cost using the effective interest rate method.

The fair value of Megawide's FVTPL are categorized as level 1 wherein quoted prices in active markets for identical assets was used as valuation basis. Megawide did not use

significant judgment in classifying its FVTPL in the fair value hierarchy because of the availability of a market that quotes prices of identical asset.

Megawide considered the risk in the valuation of its financial assets by referring to quoted prices in an active markets for its FVTPL, regularly monitor the age of its receivables from its customers and ensuring that collections are received within the agreed credit period. Impairment loss is provided when there is objective evidence that Megawide will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Financial liabilities are recognized when Megawide becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss as part of Finance costs under the Other income (charges) account in the statement of comprehensive income.

Megawide's FVTPL is the only financial asset measured at fair value as of the end of the second quarter. Megawide sold its FVTPL in first quarter resulting to gain on sale of P14.64 million presented as other income in the statement of comprehensive income. As of the second quarter, Megawide opted not to revalue its RTB since it has no plan in selling its remaining FVTPL.

Megawide does not have investment in foreign securities.

### Key Performance Indicators

Megawide's top key performance indicators (KPIs) are listed below:

<b>LIQUIDITY RATIOS</b>		
<b>Key Indicators</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Current ratio <sup>1</sup>	1.55	1.89
Acid test ratio <sup>2</sup>	1.42	1.66
Cash ratio <sup>3</sup>	0.56	0.70
Book value per share <sup>4</sup>	3.96	3.52
<b>SOLVENCY RATIOS</b>		
<b>Key Indicators</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Interest-bearing debt ratio <sup>5</sup>	0.36	0.30
Total debt ratio <sup>6</sup>	0.56	0.50
Interest coverage ratio	10.03	31.67
Debt to equity ratio	0.57	0.42
Asset to equity ratio <sup>7</sup>	2.25	2.00
<b>PROFITABILITY RATIOS</b>		
<b>Key Indicators</b>	<b>September 30, 2012</b>	<b>June 30, 2011</b>
Earnings per Share <sup>8</sup>	0.57	0.26
Return on Assets <sup>9</sup>	6.96%	4.30%
Return on Equity	14%	11%
Net Profit Margin <sup>10</sup>	11.30%	7.53%

Notes:

1. Current Ratio (Current Assets / Current Liabilities)  
To test Megawide's ability to pay its short-term debts
2. Acid Test Ratio (Quick Assets/Current Liabilities)  
Measures Megawide's ability to pay its short-term debts from its most liquid assets without relying on inventory
3. Cash Ratio (Cash + Cash Equivalents + Marketable Securities/ Current Liabilities)  
A more conservative variation of quick ratio. It measures Megawide's ability to pay its short-term debts from its most liquid assets without relying on receivables and inventory.
4. Book Value per Share (Equity/Shares Outstanding)  
Measures the amount of net assets available to stockholders of a given type of stock
5. Interest-Bearing Debt Ratio (Interest-Bearing Debt/ Equity + Interest-Bearing Debt)  
Measures the extent to which the assets having explicit cost are financed by interest-bearing debt
6. Total debt ratio (Total Liabilities/Total Assets)  
Measures the percentage of funds provided by creditors
7. Asset to equity ratio (Total Asset/Total Equity)  
Shows the relationship of the total assets to the portion owned by shareholders.  
Indicates Megawide's leverage, the amount of debt used to finance the firm.
8. Earnings per Share (Net Income/Average Outstanding Shares)  
Reflects Megawide's earning capability
9. Return on Assets (Net Income/Total Assets)  
Indicates whether assets are being used efficiently and effectively
10. Net Profit Margin (Gross Profit/Total Sales)  
Measures the percentage of net income to sales

**PART II – OTHER INFORMATION**

**Submissions of SEC Form 17-C:**

<b>Date Filed</b>	<b>Particulars</b>
July 2, 2012	Clarification of news item published in Philippine Daily Inquirer on June 27, 2012
July 2, 2012	<p>Approval by the Board of Directors of the declaration of cash dividends in the amount of Php0.13 per share or a total of Php150,024,528.20 out of the unrestricted retained earnings of Megawide as of December 31, 2011, payable on August 15, 2012 to stockholders of record as of July 20, 2012</p> <p>Discussion by the Board of Directors on a plan to establish a dividend policy of declaring annual cash and/or stock dividends ranging from payout ratio of 10 to 20 per cent subject to available unrestricted retained earnings, corporate expansion projects, planned capital expenditures and other needs for special allocation</p> <p>Election of the following members of the Board of Directors for the ensuing year:</p> <ol style="list-style-type: none"> <li>1. Michael Cosiquien;</li> <li>2. Edgar B. Saavedra;</li> <li>3. Yerik C. Cosiquien;</li> <li>4. Elizabeth Anne C. Uychaco;</li> <li>5. Florentino A. Tuason, Jr.;</li> <li>6. Leonor M. Briones (independent director); and</li> <li>7. Leonilo G. Coronel (independent</li> </ol>

	<p>director).</p> <p>Approval by the stockholders of the Minutes of the June 30, 2011 Annual Stockholders' Meeting and the Audited Financial Statements for the year ended December 31, 2011;</p> <p>Re-appointment of Punongbayan &amp; Araullo as independent auditors;</p> <p>Election of the following as officers of Megawide for the ensuing year:</p> <p>Chairman and Chief Executive Officer - Michael Cosiquien</p> <p>President and Chief Operating Officer - Edgar Saavedra</p> <p>Treasurer - Irving Cosiquien</p> <p>Corporate Secretary - Florentino Tuason, Jr.</p> <p>Chief Financial Officer / Chief Investment and Strategy Officer / Corporate Information Officer - Oliver Tan</p> <p>Assistant Corporate Secretary/ Compliance Officer/Corporate Information Officer - Grace Bay</p> <p>Corporate Information Officer - Louie Ferrer</p> <p>Corporate Information Officer - Joyce Briones</p> <p>Appointment of the following as members of the Board Committees:</p> <p><u>Executive Committee</u></p> <p>Michael Cosiquien – Chairman</p> <p>Edgar Saavedra - Member  Elizabeth Anne C. Uychaco - Member  Florentino Tuason, Jr. - Member  Leonilo Coronel - Member  Leonor Briones - Member</p>
--	---

	<p>Oliver Tan - Member</p> <p><u>Audit and Risk Management Committee</u></p> <p>Leonilo Coronel (independent director) - Chairman</p> <p>Michael Cosiquien - Member Elizabeth Anne Uychaco - Member</p> <p><u>Compensation Committee</u></p> <p>Leonilo Coronel (independent director) - Chairman</p> <p>Florentino Tuason, Jr. - Member Edgar Saavedra - Member</p> <p><u>Nomination Committee</u></p> <p>Leonor Briones (independent director) - Chairman</p> <p>Yerik Cosiquien - Member Louie Ferrer - Member</p>
July 6, 2012	Report on the number of shareholders owning 1 board lot each and Foreign Ownership Report as of June 30, 2012
July 10, 2012	Disclosure to PSE on the transfer of shares of stock of Michael Cosiquien and his family and Edgar Saavedra and his family in the Corporation to Citicore Holdings Investment, Inc.
July 17, 2012	List of Top 100 Stockholders as of June 30, 2012
July 17, 2012	Public Ownership Report as of June 30, 2012
July 24, 2012	Report on the use of proceeds as of June 30, 2012
August 8, 2012	Report on the number of shareholders owning 1 board lot each and Foreign

	Ownership Report as of July 31, 2012
August 14, 2012	Clarification of news item published in <i>philSTAR.com</i> on August 13, 2012
September 7, 2012	Report on the number of shareholders owning 1 board lot each and Foreign Ownership Report as of August 31, 2012



## SIGNATURES

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

### MEGAWIDE CONSTRUCTION CORPORATION

By:

A handwritten signature in black ink, appearing to be 'MICHAEL C. COSIQUIEN', written over a horizontal line.

**MICHAEL C. COSIQUIEN**  
Principal Executive Officer  
Date: November 13, 2012

A handwritten signature in black ink, appearing to be 'OLIVER Y. TAN', written over a horizontal line.

**OLIVER Y. TAN**  
Principal Financial Officer  
Date: November 13, 2012

**MEGAWIDE CONSTRUCTION CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS AND THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

	NINE MONTHS		THREE MONTHS	
	2012	2011	2012	2011
CONTRACT REVENUES	P 5,607,316,188	P 4,535,530,781	P 1,968,234,589	P 1,752,810,826
CONTRACT COSTS	4,688,417,602	3,882,797,000	1,657,941,433	1,497,139,580
GROSS PROFIT	918,898,586	652,733,781	310,293,156	255,671,246
OTHER OPERATING EXPENSES	208,388,016	162,243,340	86,645,479	53,254,472
OPERATING PROFIT	710,510,571	490,490,441	223,647,677	202,416,774
OTHER INCOME(CHARGES)				
Finance income	50,430,597	37,596,845	16,889,396	21,817,296
Finance costs	(70,252,450)	(28,554,532)	(37,075,566)	(18,963,296)
Others - net	13,975,899	(93,184)	(74,540.39)	-
	( 5,845,953 )	8,949,129	( 20,260,710 )	2,854,000
PROFIT BEFORE TAX	704,664,618	499,439,570	203,386,966	205,270,774
TAX EXPENSE	(71,169,360)	(142,258,858)	(44,243,450)	(57,745,211)
NET PROFIT	633,495,258	357,180,712	159,143,516	147,525,563
OTHER COMPREHENSIVE INCOME	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	P 633,495,258	P 357,180,712	P 159,143,516	P 147,525,563
Earnings per Share				
Basic and diluted	P 0.57	P 0.44	P 0.29	P 0.18

(See Notes to Financial Statements)

MEGAWIDE CONSTRUCTION CORPORATION  
 STATEMENTS OF FINANCIAL POSITION  
 SEPTEMBER 30, 2012 AND DECEMBER 31, 2011  
 (Amounts in Philippine Pesos)

	SEPTEMBER 30, 2012	December 31, 2011
	(UNAUDITED)	(AUDITED)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	P 409,496,689	P 1,440,677,903
Short-term investments	2,000,670,032	777,938,096
Trade and other receivables - net	3,725,845,692	3,055,939,023
Inventory	379,462,609	171,171,138
Other current assets	204,563,617	93,349,979
Total Current Assets	<u>6,720,038,639</u>	<u>5,539,076,139</u>
<b>NON-CURRENT ASSETS</b>		
Property and equipment - net	3,073,959,640	2,183,564,852
Deferred tax assets	20,296,912	20,296,912
Other non-current assets	121,879,867	90,931,235
Total Non-current Assets	<u>3,216,136,419</u>	<u>2,294,792,999</u>
<b>TOTAL ASSETS</b>	<u><b>P 9,936,175,058</b></u>	<u><b>P 7,833,869,138</b></u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Interest-bearing loans and borrowings	P 1,337,000,237	P 493,841,994
Trade and other payables	675,406,632	875,703,641
Billings in excess of costs on uncompleted contracts - net	2,309,828,900	1,352,288,853
Total Current Liabilities	<u>4,322,235,769</u>	<u>2,721,834,488</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing loans and borrowings	1,182,207,802	1,168,965,421
Retirement benefit obligation	24,488,775	24,488,775
Total Non-current Liabilities	<u>1,206,696,577</u>	<u>1,193,454,196</u>
Total Liabilities	<u>5,528,932,346</u>	<u>3,915,288,684</u>
<b>EQUITY</b>		
Capital stock	1,114,100,003	1,114,100,003
Additional paid-in capital	1,961,729,696	1,961,729,696
Retained earnings	1,331,413,013	842,750,755
Total Equity	<u>4,407,242,712</u>	<u>3,918,580,454</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><b>P 9,936,175,058</b></u>	<u><b>P 7,833,869,138</b></u>

(See Notes to Financial Statements)

**MEGAWIDE CONSTRUCTION CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

	<u>2012</u>	<u>2011</u>
<b>CAPITAL STOCK</b>		
Balance at beginning of period	P 1,114,100,003	565,000,002
Issuance during the period	-	292,000,000
	<u>1,114,100,003</u>	<u>857,000,002</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of period	1,961,729,696	60,000,000
Additions during the period	-	1,925,119,959
	<u>1,961,729,696</u>	<u>1,985,119,959</u>
<b>RETAINED EARNINGS</b>		
Balance at beginning of period	842,750,755	349,728,115
Net profit	633,495,258	209,655,148
Cash dividend	(144,833,000)	-
	<u>1,331,413,013</u>	<u>559,383,263</u>
<b>TOTAL EQUITY</b>	<u><u>P 4,407,242,712</u></u>	<u><u>3,401,503,224</u></u>

(See Notes to Financial Statements)

MEGAWIDE CONSTRUCTION CORPORATION  
 STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011  
 (Amounts in Philippine Pesos)  
 (UNAUDITED)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	P 704,664,618	P 294,168,795
Adjustments for:		
Depreciation	244,252,195	90,274,435
Interest expense	70,252,450	9,591,236
Interest income	(50,430,597)	(15,779,549)
Operating profit before working capital changes	968,738,665	378,254,917
Decrease(Increase) in trade and other receivables	(669,906,669)	899,861,791
Increase in construction materials	(208,291,471)	(2,653,777)
Increase in costs in excess of billings on uncompleted contracts	-	(134,210,222)
Increase in prepayments and other current assets	(182,382,997)	(70,996,896)
Decrease in other non-current assets	(30,948,632)	-
Decrease in trade and other payables	(200,297,009)	(187,047,369)
Increase in deposits	-	49,838,645
Increase (Decrease) in billings in excess of costs on uncompleted contracts	957,540,047	(768,800,611)
Decrease in retirement benefit obligation	-	949,319
Cash generated from operations	634,451,933	165,195,797
Cash paid for income taxes	-	(45,237,503)
Net Cash From Operating Activities	634,451,933	119,958,294
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in Short-term Investments	(1,222,731,936)	(1,480,992,756)
Acquisitions of property and equipment	(1,134,646,983)	(727,881,513)
Interest received	50,430,597	15,779,549
Net Cash Used in Investing Activities	(2,306,948,322)	(2,193,094,720)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from loans	856,400,624	414,462,242
Cash dividend paid	(144,833,000)	-
Interest paid	(70,252,450)	(9,591,236)
Proceeds from issuance of shares of stock	-	2,217,119,959
Net Cash From Financing Activities	641,315,175	2,621,990,965
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,031,181,214)	548,854,539
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	1,440,677,903	185,275,109
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	P 409,496,689	P 734,129,648

(See Notes to Financial Statements)

**MEGAWIDE CONSTRUCTION CORP.**

Aging of Receivables

As of September 30, 2012

	Current	Over 30 Days	Over 60 Days	Over 90 Days	Over 120 Days	Total
SMDC	329,138,818	321,116,058	38,100,146	106,372,081	172,342,589	967,069,693
GROUND 18 REALTY	-	150,554,534	21,354,836	-	-	171,909,370
FILINVEST	7,297,125	5,464,256	68,755,216	27,184,248	-	108,700,844
ANTEL LAND HIOLDINGS INC.	-	-	23,826,649	75,339,456	-	99,166,105
MALATE BAYVIEW MANSION	-	-	37,589,693	7,718,819	-	45,308,512
BELLE CORPORATION	-	-	-	-	38,626,650	38,626,650
DYNAMIC REALTY	-	31,243,966	-	-	-	31,243,966
DEXTERTON CORP.	18,928,571	-	-	-	-	18,928,571
PRINCE JUN PROPERTY HOLDINGS	-	-	17,937,353	-	-	17,937,353
BANFF REALTY CORP	-	-	-	-	5,649,826	5,649,826
GOLDLAND PROPERTIES	-	-	-	-	3,175,331	3,175,331
TOTAL INVESTMENT & MGT.	-	-	-	-	3,031,515	3,031,515
ASYA	841,457	-	-	-	-	841,457
	<b>356,205,971</b>	<b>508,378,814</b>	<b>207,563,893</b>	<b>216,614,603</b>	<b>222,825,911</b>	<b>1,511,589,192</b>
	24%	34%	14%	14%	15%	100%

**MEGAWIDE CONSTRUCTION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

**1. CORPORATE INFORMATION**

Megawide Construction Corporation (the Company) was incorporated in the Philippines on July 28, 2004 and is engaged in the general construction business, including constructing, enlarging, repairing, or engaging in any work upon buildings, houses and condominium, roads, plants, bridges, piers, waterworks, railroads and other structures. It performs general construction works which involve site development, earthworks, structural and civil works, masonry works, architectural finishes, electrical works, plumbing and sanitary works, fire protection works and mechanical works.

Currently, the Company is continuously engaged in the business of construction, its sole business activity where it utilizes the services of subcontractors. Hence, no segment information and disclosures are presented in the Company's financial statements.

On January 28, 2011, the Philippine Stock Exchange (PSE) and the Philippine Securities Exchange Commission (SEC) approved the Company's application for the listing of its common stock. The approval covers the initial public offering of 292 million unissued common shares of the Company at P7.84 offer price per share and the listing on PSE's main board on February 18, 2011.

The registered office of the Company, which is also its principal place of business, is located at the 2<sup>nd</sup> Floor Spring Building, Arnaiz Avenue corner P. Burgos St., Pasay City. The Company also maintains an engineering office at No. 66 Scout de Guia cor. Scout Tobias, Brgy. Laging Handa, Quezon City, and an extension office at 3<sup>rd</sup> Floor of JSB Building, Tomas Morato, Quezon City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all years presented, unless otherwise stated.

***2.1 Basis of Preparation of Financial Statements***

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

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

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

*(b) Presentation of Financial Statements*

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

*(c) Functional and Presentation Currency*

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

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

***2.1 Adoption of New Interpretations, Revisions and Amendments to PFRS***

*(a) Effective in 2011 that are Relevant to the Company*

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

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



Discussed below are the effects on the financial statements of the new interpretation, amendments, interpretation and improvements to PFRS and related interpretation.

- (i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Company's disclosures of related parties in its financial statements.
- (ii) Philippine Interpretation IFRIC 14, (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Company is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its financial statements.
- (iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
  - the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments which are effective from January 1, 2011 were identified to be relevant to the Company's financial statements but which did not have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Company currently has no other comprehensive income, the adoption of this standard did not impact the Company's financial statements.
- PAS 34 (Amendment), *Interim Financial Reporting – Significant Event and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report. This amendment has no significant effect on the interim financial statements as the Company already provides adequate information in its interim financial statements.
- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Company already provides adequate information in its financial statements in compliance with the disclosure requirements.

(b) *Effective in 2011 but not Relevant to the Company*

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

PAS 21 *	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 *	:	Investment in Associates
PAS 31 *	:	Investment in Joint Ventures
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
PFRS 1 (Amendment)	:	First Time Adoption of PFRS –

PFRS 1 (Amendment)	:	Financial Instrument Disclosures First Time Adoption of PFRS – <i>Interim Information, Deemed Cost Exemption, and Rate-regulated Entities</i>
PFRS 3 (Amendments)	:	Business Combinations
IFRIC 13	:	Customer Loyalty Programmes – Fair Value of Awards Credits

*\* Consequential amendments arising from PAS 27 (2008) amendments*

(c) *Effective Subsequent to 2011 but not Adopted Early*

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

- (i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company believes that adoption of this amendment in 2013 will not have any significant effect on its financial statements as the Company currently has no other comprehensive income.
- (ii) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
  - eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
  - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Company is using the corridor approach and its unrecognized actuarial losses as of December 31, 2011 amounted to P20.6 million which will be retrospectively recognized as losses in other comprehensive income in 2013.

- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets transactions of financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Company does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Company's disclosures in its financial statements.
- (iv) PFRS 9, *Financial Instruments: Classification and Measurement* (effective January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

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

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

On May 16, 2011, the SEC published SEC Memorandum Circular No. 3 – *Guidance on the Implementation of PFRS 9*. As required by the memorandum circular, the Company is required to make an explicit statement on the Company's December 31, 2011 financial statements about its plans to adopt PFRS 9. The following are the Company's plans with respect to the memorandum circular:

- That the Company has decided not to early adopt PFRS 9 for its 2011 financial statements and most likely will apply it until all chapters have been published at which time the Company expects it can comprehensively assess the impact of the revised standard;
- That the Company will conduct in the second quarter of 2012, an impact evaluation of PFRS 9 using its 2011 financial statements and will explicitly state the Company's decision in its June 30, 2012 financial statements, whether to early adopt PFRS 9 for its 2012 financial statements or not; and,

- If the Company decides to early adopt for its 2012 financial statements, the June 30, 2012 financial statements will already reflect the application of PFRS 9 and qualitative and quantitative discussion of the impact evaluation.
  - The Company decided not to early adopt PFRS 9 in its June 30, 2012 financial statements.
- (v) PFRS 13, *Fair Value Measurement* (effective January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Company believes that the adoption of the new standard in 2013 will not have any significant effect on its financial statements as the Company usually enters into transactions which results in assets being classified as “hold-to-collect contractual cash flows,” thus, measured at amortized cost.

## ***2.2 Financial Assets***

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

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

The Company’s financial assets include FVTPL and loans and receivables as follows:

### *(a) FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) *Loans and Receivables*

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

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

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Short-Term Investments and Trade and Other Receivables (excluding Advances to suppliers) in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance costs or Finance income in the statement of comprehensive income.

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

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

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

### ***2.3 Construction Materials***

Construction materials are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of construction materials includes all costs directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

The net realizable value of construction materials is the current replacement cost.

## ***2.4 Property and Equipment***

Property and equipment, except land and construction in progress, are carried at acquisition cost or construction cost less subsequent depreciation and any impairment losses. Land held for use in operations or administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

Depreciation is computed on straight-line basis over the estimated useful lives of the assets as follows:

Building	25 years
Transportation equipment	5 years
Office equipment	3 years
Construction and other equipment	2-5 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction of the Company's building and precast factory and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Transportation equipment held under finance lease agreements (see Note 2.11) are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of lease, if shorter.

The Company's property and equipment are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge in depreciation is made in respect of these assets.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognized.

## ***2.5 Intangible Assets***

Intangible assets include acquired computer software licenses, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to five years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.13.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred. Costs that are directly attributable to the development phase of new customized software for information technology are recognized as intangible assets if, and only if, the Company can demonstrate all of the following recognition requirements:

- (i) technical feasibility of completing the prospective product for internal use or sale;
- (ii) the intangible asset will generate probable economic benefits through internal use or sale;
- (iii) intention and ability to complete, i.e., availability of sufficient technical, financial and other resources necessary for completion, and use or sell the asset; and,
- (iv) ability to measure reliably the expenditure attributable to the intangible asset during development.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an intangible asset is determined as the difference between the net disposal proceeds and carrying value of the asset, and is charged to profit or loss for the period.

## ***2.6 Financial Liabilities***

Financial liabilities, which include interest-bearing loans and borrowings, and trade and other payables [excluding output value-added tax (VAT) payable, unearned income and estimated liability on litigation claims] are measured at amortized cost using the effective interest rate method.

Financial liabilities are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss as part of Finance costs under the Other income (charges) account in the statement of comprehensive income. Interest-bearing loans and borrowings are raised for support of funding of operations. They are recognized at proceeds received, net of direct issue costs.

Trade and other payables are initially recognized at their fair value and subsequently measured at amortized cost.



Obligations under finance lease (included as part of Interest-bearing loans and borrowings) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the BOD.

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

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

### ***2.7 Provisions and Contingencies***

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

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

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

## ***2.8 Construction Revenue and Costs***

The Company uses the percentage of completion method to determine the appropriate amount to recognize as contract revenue and cost in a given period. The stage of completion is measured through surveys done by the Company's project engineers in accordance with terms, conditions and technical specifications stipulated in the contract. Contract cost is determined based on total estimated cost to complete the project, as determined by project engineers, taking into consideration the stage of completion of the projects.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recovered.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract based on the percentage of completion. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings under current assets as Costs in excess of billings on uncompleted contracts. Progress billings not yet paid by customers and retention are included in Trade and other receivables account in the statement of financial position.

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses) under current liabilities as Billings in excess of costs on uncompleted contracts.

Prior to commencement of the project, cash received from customers are presented as Advances from customers account under the current liabilities section of the statement of financial position.

## ***2.9 Revenue and Expense Recognition***

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Company for services rendered, excluding VAT.

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

- (a) *Rendering of services* – Revenue from construction of buildings is recognized using the percentage-of-completion method based on the physical completion of the project (see Note 2.9).

(b) *Interest income* – Income is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.15), on an accrual basis.

### ***2.10 Leases – Company as Lessee***

Leases, which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

For sale and leaseback transactions resulting in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not immediately recognized as income by the Company (as seller-lessee) but deferred and amortized over the lease term. However, if the carrying amount of the asset exceeds the sales proceeds, the loss is immediately charged to profit or loss in the statement of comprehensive income.

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

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

### ***2.11 Foreign Currency Transactions***

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

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

## ***2.12 Impairment of Non-financial Assets***

The Company's property, plant and equipment and intangible assets are subject to impairment testing. All non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

## ***2.13 Employee Benefits***

Post-employment benefit is provided to employees through a defined benefit plan.

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

The liability recognized in the statement of financial position for post-employment defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment liability.

Actuarial gains or losses are not recognized as income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses

within the 10% corridor are disclosed separately. Past service costs are recognized immediately in the profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

#### ***2.14 Borrowing Costs***

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

#### ***2.15 Income Taxes***

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

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

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

### ***2.16 Related Party Transactions***

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

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

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

### ***2.17 Equity***

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

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

Retained earnings include all current and prior period results of operations as reported in profit or loss section of the statement of comprehensive income.

### ***2.18 Earnings Per Share***

Basic earnings per share is determined by dividing net profit by the weighted average number of common shares subscribed and issued during the year after giving retroactive effect to any stock dividends, stock split or reverse stock split declared in the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Company does not have dilutive potential shares outstanding as at the end of the reporting period.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

### ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

*(a) Operating and Finance Leases*

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

*(b) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and disclosure of contingencies are discussed in Note 2.7.

### ***3.2 Key Sources of Estimation Uncertainty***

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

*(a) Allowance for Impairment of Trade and Other Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

*(b) Determining Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the time the estimates are made. The Company periodically reviews its inventories for possible damaged and obsolete items. Items identified as obsolete are provided with impairment allowance.

There was no allowance for obsolescence provided on inventories in both years.

*(c) Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with

similar assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. An increase (decrease) in the estimated useful life of any item of property and equipment would decrease (increase) the recorded depreciation and increase (decrease) property and equipment.

(d) *Realizable Amount of Deferred Tax Assets*

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

(e) *Post-employment Benefit*

The determination of the Company's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

(f) *Percentage of Completion*

The Company uses the percentage-of-completion method in accounting for its gross profit on construction contracts. The use of the percentage-of-completion method requires the Company to estimate the stage of completion and total cost to be incurred on a per project basis. If the proportion of the percentage of completed projects or the total estimated cost per project differs from management's estimates, the amount of profit or loss would have changed.

#### 4. INTEREST-BEARING LOANS AND BORROWINGS

The short-term and long-term interest bearing loans are as follows as of September 30, 2012 and December 31, 2011:

	<u>September 2012</u>	<u>December 2011</u>
Current:		
Bank loans	<b>P 1,249,012,500</b>	P 350,000,000
Obligation under finance lease	<u>87,987,737</u>	<u>143,841,994</u>
	<b>1,337,000,237</b>	493,841,994
Non-current –		
Notes payable	<b>1,000,000,000</b>	1,000,000,000
Obligation under finance lease	<u>182,207,802</u>	<u>168,965,421</u>
	<b>1,182,207,802</b>	1,168,965,421



**P 2,519,208,039**

**P 1,662,807,415**

A reconciliation of the carrying amount of loan at the beginning and end of September 30, 2012 is shown below.

	<b>BDO</b>	<b>MBTC</b>	<b>PNB</b>	<b>Total</b>
Balance at January 1, 2012	350,000,000	-	-	350,000,000
Availments				
1st Quarter	200,625,000	-	-	200,625,000
2nd Quarter	225,950,000	233,750,000	42,500,000	502,200,000
3rd Quarter	<b>680,418,750</b>	233,906,250	195,000,000	1,109,325,000
	1,456,993,750	467,656,250	237,500,000	2,162,150,000
Payments				
1st Quarter	105,000,000	-	-	105,000,000
2nd Quarter	307,031,250	-	-	307,031,250
3rd Quarter	267,356,250	233,750,000	-	501,106,250
	679,387,500	233,750,000	-	913,137,500
Balance at September 30,	<b>777,606,250</b>	<b>233,906,250</b>	<b>237,500,000</b>	<b>1,249,012,500</b>

The bank loans are secured by certain contract receivables of the Company. The loans bear a fixed rate that ranges from 3.70% to 4.00% in 2012 and 4% in 2011. Total interest on these loans amounted to P70.25 million and P28.55 million as of September 30, 2012 and 2011, respectively.

## 5. EQUITY

On July 5, 2012, Michael Cosiquien and his family and Edgar Saavedra and his family collectively holding a total of Six Hundred Eighty-Eight Million Five Hundred Thousand shares (688,500,000) or Sixty-One and 80/100 percent (61.80%) of the issued and outstanding capital stock ("Majority Shareholders") of Megawide seek to transfer to, and consolidate their respective shares in Citicore Holdings Investment, Inc. ("Citicore"). By virtue of the transfer of these shares to Citicore, Citicore will now legally own and control 61.80% of the issued and outstanding capital stock of Megawide.

On July 26, 2012, the Company declared cash dividends of Php0.13 per share with an aggregate value of Php150,024,528.20 to be taken from the unrestricted retained earnings of the Corporation as of December 31, 2011, payable on August 15, 2012 to stockholders of record as of July 20, 2012.