

COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

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

Dionisio E. Carpio, Jr.

(Contact Person)

811-0465

(Company Telephone Number)

1	2	3	1
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Month Day
(Fiscal Year)

**Definitive SEC
Form 20-IS**

(Form Type)

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Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20 – IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
[] Preliminary Information Statement
[x] Definitive Information Statement
2. Name of Registrant as specified in its charter: **Medco Holdings, Inc.**
3. Province, country or other jurisdiction of incorporation or organization
Metro Manila, Philippines
4. SEC Identification Number: **39652**
5. BIR Tax Identification Code: **004-844-938**
6. Address of principal office Postal Code
31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue
Makati City, Metro Manila, Philippines **1229**
7. Registrant's telephone number, including area code: **(632) 811-0465 to 67**
8. Date, time and place of the meeting of security holders
December 28, 2011, 10:00 a.m. at Brasserie 21, 21st Floor Security Bank Centre, 6766 Ayala Avenue, Makati City
9. Approximate date on which the Information Statement is first to be sent or given to security holders – December 01, 2011
10. In case of proxy Solicitations: **(Not applicable)**
11. Securities registered pursuant to Section 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):
- | Title of Each Class | Number of Shares of Common Stock
Outstanding or Amount of Debt
Outstanding |
|---------------------|--|
| Common | 700,000,000 shares |
12. Are any or all of registrant's securities listed in a Stock Exchange?
Yes x No

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

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



MEDCO HOLDINGS, INC.

Notice of Annual Meeting of Stockholders

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of the Stockholders of Medco Holdings, Inc. (the "Corporation") which will be held on December 28, 2011 at 10:00 a.m. at Brasserie 21, 21st Floor Security Bank Centre, 6766 Ayala Avenue, Makati City. The agenda for the meeting is as follows:

- I. Call to Order
- II. Certification of Notices and Quorum
- III. Approval of the minutes of the annual meeting of stockholders held on October 8, 2010;
- IV. Approval of the Annual Report and the Audited Financial Statements as of December 31, 2010;
- V. Approval and Ratification of the acts, contracts, investments and resolutions of the Board and management of the Corporation since the last annual meeting on October 8, 2010;
- VI. Election of the members of the Board of Directors for the year 2011;
- VII. Re-appointment of Punongbayan & Araullo, the Philippine representative of Grant Thornton International, as external auditors of the Corporation for the year 2011;
- VIII. Other matters that may properly come before December 28, 2011 (date of meeting).

Only stockholders of record in the books of the Corporation at the close of business on November 28, 2011 (record date) will be entitled to vote at the meeting. A list of stockholders entitled to vote will be available for inspection at the offices of the Corporation at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, Metro Manila, Philippines, on December 12, 2011, at least fifteen (15) days prior to the Annual Meeting.

Medco Holdings, Inc.

By:

MA. LOURDES B. BATHAN

Assistant Corporate Secretary

Makati City, Philippines November 22, 2011

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

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

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

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

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

Date : December 28, 2011
Time: 10:00 a.m.
Place: Brasserie 21, 21st Floor Security Bank Centre, 6766 Ayala Avenue,
Makati City

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

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

- (b) Copies of this Information Statement will be sent or given to the stockholders on or about December 01, 2011.

Item 2. Dissenters' Right of Appraisal

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

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

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

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

- (a) None of the following persons have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon:
 - (1) A person who has been a director or officer of the Company at any time since the beginning of the last fiscal year;
 - (2) A nominee for election as a director of the Company; and
 - (3) An associate of any of the foregoing persons.
- (b) No director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company at the Annual Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Outstanding Shares

There are 700,000,000 issued and outstanding common shares as of November 28, 2011 (the "Record Date"). Each share is entitled to one (1) vote. The Company has only one (1) class of security.

(b) Record Date and Share Ownership

Only stockholders of record in the books of the Company at the close of business on , November 28, 2011 is entitled to vote at the Annual Meeting. Presence in person or by proxy of stockholders owning a majority of the issued and outstanding common shares as of the Record Date will be required for a quorum.

(c) Cumulative Voting

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

(d) (1) Security Ownership of Certain Record and Beneficial Owners as of October 31, 2011, 2011.

Title of class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of class
Common	Citivist Asia Limited 24/F Lippo Tower, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Citivist Asia Limited 24/F Lippo Tower, Lippo Centre, 89 Queensway Hong Kong (Parent Company of the Issuer)	Foreign	322,314,874	46.04%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue Makati City (No Relationship with Issuer)	Various beneficial owners, each having less than 5%.	Filipino	141,453,144	20.21%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue Makati City (No Relationship with Issuer)	Various beneficial owners, please see below for beneficial owner with more than 5%.	Foreign	55,854,012	7.98%

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

The record owners of more than five percent (5%) of the outstanding shares of PCD Nominee Corp. as of October 31, 2011 are:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common	SB Equities, Incorporated 18 th Floor Security Bank Center, 6776 Ayala Ave., Makati City	Lippo Securities Limited)	Foreign	47,570,012	6.80%
			TOTAL	48,870,012	

(2) Security Ownership of Management

To the extent known to the Board of Directors, there is no security ownership of Management, other than directors' qualifying shares. The record ownership of shares of the Board of Directors is as follows, as of October 31, 2011:

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

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

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

None.

(4) Changes in Control

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

Item 5. Directors and Executive Officers

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

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

BOBBY CHENG SAI CHONG, British, age sixty two (62), has been a director of the Company since September 18, 2006 and has been appointed as the Chairman of the Board of Directors on July 23, 2009. He is also a director of Export and Industry Bank, Inc. from November 1999 to the present and is a senior vice president there for central processing group from October 30, 2006 to the present and was previously a Vice president there from November 1999 to February 28, 2004. He has more than thirty (30) years experience in banking and finance.

DIONISIO E. CARPIO, JR., Filipino, age sixty-five (65), has been a director of the Company since 1998 and its President from September 2006 up to present. He was the treasurer of the Company from 1998 to 2006. He is the senior vice president, treasurer and director of MAIC since September 1, 1997 up to present. He is also a director of Export and Industry Bank, Inc. ("EIB") since 2000 to the present, ArthaLand Corporation (formerly EIB Realty Developers, Inc.) from 2002 to the present, EIB Securities, Inc. since 2002 to the present and ValueGen Financial Insurance Company, Inc. and BancLife Insurance Co., Inc. from 2004 to the present. Before joining MAIC in 1995, he was connected with Far East Bank and Trust Company. Mr. Carpio holds a Bachelor of Science degree in Mechanical Engineering from the De La Salle University and a Masters degree in Business Management from the Asian Institute of Management. He has more than thirty (30) years experience in commercial, investment and trust banking, as well as line management.

CALY D. ANG, Filipino, age sixty three (63), has been a director of the Company and of MAIC since 1995. She has been an independent director of the Company and of MAIC since 2006. She is the president and general manager of Multi-World Philippines International, Inc. from 1989 up to the present and a director and president of Concord World Properties, Inc. from 1991 to the present. She graduated from Adamson University, Manila obtaining a Bachelor of Science degree in Commerce in 1969 and a MBA from the same institution in 1971.

SOLOMON R. B. CASTRO, Filipino, age forty three (43), has been a director of the Company since 1998 to the present. He has been an independent director of the Company since 2002. He used to be the corporate secretary and vice-president-legal counsel of MAIC from May 1997 to August 1998. He is the president and director of KBC Realty Corporation since 1996 to the present. He is also the managing director of Bellwether Advisory, Inc. since 2006 up to the present. He is a member of the Philippine bar. He holds a Bachelor of Science degree in Business Administration and a Bachelor of Laws degree from the University of the Philippines. He also has a Master of Laws degree from Cornell University, New York. His practice areas include banking and finance, securities regulation, mergers and acquisitions, and general corporate law.

EDNA D. REYES, Filipino, age sixty four (64), has been a director of the Company since 2000 and was its Treasurer between 2006 and 2007. She is a director of MAIC and is also a director of Export and Industry Bank, Inc. since March 2, 2007 and was also previously a director thereof from 2004 up to October 10, 2006. She has more than thirty (30) years experience in banking, particularly in international and correspondent banking as well as foreign operations. She has a Bachelor of Science degree in Commerce from the University of Santo Tomas.

PAULINE C. TAN, Filipino, age forty one (41), has been a director of the Company since 2009. She has been the treasurer and compliance officer of the Company since September 20, 2007. She is currently the President of EIB Securities, Inc., a wholly owned subsidiary of Export Bank, of which she has been a director until 25 May 2006. She is also an incumbent Director/Treasurer of ArthaLand Corporation (formerly EIB Realty Developers, Inc.), another subsidiary of Export Bank. She was connected with the Hong Kong Chinese Bank in 1994. From 1995 to 1999 she was a director of Lippo Securities, Inc. and MAIC and from 1995 to 2000 of Manila Exposition Complex, Inc. She was also the Managing Director of Sung Hung Kai Securities Philippines, Inc. from 1999 to June 2000.

SAY HING WONG, British, age sixty two (62), is a director of the Company. He has been a director of the Company since 2003 to the present. He graduated from Hong Kong Polytechnic 6t HK Management Association, obtaining a diploma in Management Studies. He has over twenty (20) years experience in commercial banking and management of financial institutions.

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

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

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

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

Qualifications:

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

Disqualifications:

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

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

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

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

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

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

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

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

Nominees for Regular Directors

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

Nominees for Independent Directors

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

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

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

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

(3) Executive Officers

The following are the principal officers of the Company:

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

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

ALEX ERLITO S. FIDER, Filipino, age fifty eight (58), is the corporate secretary of the Company. He has been the corporate secretary since 2003 up to the present. He is a member of the Philippine Bar and a Senior Partner in Picazo Buyco Tan Fider & Santos. As an economics and law graduate of the University of the Philippines, he has many years of law practice in commercial, securities, civil, and public utilities law having served as lead counsel for various private and publicly held companies in a wide array of transactions involving corporate finance, acquisition, securities offering, debt restructuring and real estate development. He undertook studies in urban and regional planning and strategic business economics. He is a Fellow of the Philippine Institute of Corporate Directors.

MA. LOURDES B. BATHAN, Filipino, age thirty-eight (38), is the corporate information officer of the Company. She has been the corporate information officer since 2003 up to present. She is also the principal accounting officer of the Company since 1998 up to present. She is a member of the Philippine Institute of Certified Public Accountants. She has more than ten years of experience in private accounting and three years experience in public practice as an auditor.

(4) Significant Employees

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

(5) Family Relationship

None.

(6) Involvement in Certain Legal Proceedings

Based on their individual responses after due inquiry as of August 20, 2010, none of the following events occurred with respect to any of the foregoing nominees and executive officers during the past five (5) years that would be material to an evaluation of their ability or integrity to act as directors or executive officers of the Company:

- (i) Any bankruptcy petition filed by or against any business of which the nominee was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
- (ii) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (iii) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the nominee's involvement in any type of business, securities, commodities or banking activities; and
- (iv) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

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

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

The Company and its subsidiary, in the ordinary course of business, grant to and obtain advances from certain affiliated companies at prevailing market rates. In addition, Medco Asia Investment Corp. also leases its office space from affiliate Capital Place International Limited for a period one year with an annual rental of P1,030,586.

(8) Parent-Subsidiary Relationships

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

Details of the principal parent companies of the Company showing the basis of control and percentage of voting securities owned by its immediate parent, if any, as of October 31, 2011 are as follows:

Name	Place of Incorporation	Parent Company	Percentage of Equity Owned by Parent Company
Medco Holdings, Inc.	Philippines	Citivist Asia Limited	46.045%
Citivist Asia Limited	British Virgin Islands	Lippo China Resources Limited	100%
Lippo China Resources Limited	Hong Kong	Lippo Limited	71.2%
Lippo Limited	Hong Kong	Lippo Cayman Limited	57.34%

Details of the principal subsidiary and affiliated companies and their activities as of October 31, 2011, are as follows:

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

(b) Others

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

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

Item 6. Compensation of Directors and Executive Officers

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

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

Notes:

1. The aforementioned Other Annual Compensation consists only *per diems* given to directors.
2. Each Director receives *per diems* of P2,000 for each board meeting.
3. The Corporate Secretary does not receive a salary but his law firm is paid a professional retainer fee of P10,000 monthly.

(b) Compensation of Directors

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

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

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

(c) Employment Contracts

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

(d) Warrants and Options Outstanding

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

Item 7. Appointment of Independent Public Accountants

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

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

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

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

During the past three (3) fiscal years, there have been no disagreements with the independent auditors on accounting and financial disclosures, except for the qualified opinion on the Company's 2010 Audited Financial Statements in connection with its investment in Export and Industry Bank, Inc. (please refer to Annex "A"- Audited Financial Statements for the years December 31, 2010 and December 31, 2009.)

External Audit Fees

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

(a) Audit and Audit-Related Fees

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

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

(b) Tax Fees

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

(c) All Other Fees

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

(d) Audit Committee's Approval Policies and Procedures

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

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

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

The Audit Committee has the following duties and responsibilities:

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

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

D. OTHER MATTERS

Item 15. Action with Respect to Reports

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

Approval of Minutes of the Annual Meeting of the Stockholders held last October 8, 2010

The Minutes of the Annual Meeting of the stockholders of the Company held on October 8, 2010 will be presented for approval of the stockholders. Such action on the part of the stockholders will not constitute approval or disapproval of the matters referred to in the Minutes since the stockholders' approval and action on those items have already been obtained in those meetings and subsequently carried out.

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

The Minutes of the Annual Meeting of the stockholders held on October 8, 2010 pertain to the following matters:

- a. Approval of the minutes of the annual meeting of stockholders held on July 23, 2009;
- b. Approval of the Annual Report and the Audited Financial Statements as of December 31, 2009;
- c. Approval and ratification of the acts, contracts, investments and resolutions of the Board and management of the Corporation since the last annual meeting on July 23, 2009;
- d. Election of the following members of the Board of Directors for the year 2010;
 - i. Mr. Sai Hing Wong;
 - ii. Mr. Dionisio E. Carpio, Jr.;
 - iii. Ms. Edna D. Reyes;
 - iv. Mrs. Caly D. Ang (independent director);
 - v. Mr. Solomon R. B. Castro (independent director); and
 - vi. Mr. Bobby Cheng Sai Chong.
 - vii. Ms. Pauline C. Tan
- e. Appointment of Punongbayan & Araullo, the Philippine representative of Grant Thornton International, as external auditors of the Corporation for the year 2010;

Approval of the Annual Report and Audited Financial Statements for 2010

The 2010 Management Report and the Audited Financial Statements of the Company for the period ended December 31, 2010 together with the accompanying notes to financial statements prepared by Punongbayan & Araullo (collectively, the "Financial Statements") will be submitted for approval of the stockholders at the Annual Meeting.

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

Approval of the Management Report and the Financial Statements for 2010 requires the affirmative vote of a majority of the votes cast at the Annual Meeting by the stockholders entitled to vote thereon.

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

The stockholders shall consider the approval and ratification of all the significant acts, contracts, investments and resolutions of the Board of Directors and Management since the date of the last annual meeting, October 8, 2010.

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

Item 19. Voting Procedures

The voting procedure will be the same as in the previous years. Stockholders of record as of November 28, 2011 may vote at the scheduled stockholders' meeting. Registration of stockholders and proxies attending the meeting will open at 9:00 a.m. on November 28, 2011.

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

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

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

The following matters require the following votes:

Subject Matter	Votes Required
Reappointment of Punongbayan & Araullo	Majority of the votes cast
Ratification of all acts, contracts, investments and resolutions of the Board of Directors and Management	Majority of the votes cast
Approval of Minutes of the Annual Stockholders' Meeting	Majority of the votes cast
Approval of the 2010 Financial Accounts	Majority of the votes cast
Election of Directors	The top seven (7) nominees with the most number of votes are elected

Copies of the Company's Audited Financial Statements for the years December 31, 2010 and December 31, 2009 (Annex "A"), and unaudited Financial Statements for the Third Quarter Ending September 30, 2011 and Second Quarter Ending June 30, 2011 are also submitted herewith as Annexes "B", and "C", respectively.

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

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 18 November 2011.

MEDCO HOLDINGS, INC.

By:



Dionisio E. Carpio, Jr.
President

MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2010, 2009 AND 2008

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

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

Plan of Operation

The Company incurred recurring net losses of P226,284,153, P6,844,586, and P10,229,695, on a consolidated basis for the years ended December 31, 2010, 2009, and 2008, respectively. The Company reported deficits of P720,393,526 and P573,761,154 as of December 31, 2010 and 2009, respectively. Despite having incurred such deficits, management believes that the Company will be able to achieve positive operations in future years.

The Company is confident that it can satisfy its cash requirements not only in the next twelve (12) months but also on a long term basis. It has substantial liquid assets on a consolidated basis, which as at December 31, 2010 consisted of P39.1 million of cash and cash equivalents and short-term investments. The Company does not have any plans to raise additional funds in the next twelve (12) months. In case the Company has any unforeseen cash requirement that cannot be met by its internal sources, its external sources of liquidity would consist of advances from its affiliate companies and/or major shareholders.

The Company will not perform any product research and development for the next twelve (12) months. Neither will the Company purchase nor sell any plant or significant equipment during the said period.

In view of the still weak capital markets anticipated during the next twelve (12) months, the Company as well as its subsidiary, MAIC, will maintain its short-term investments in bank placements and government securities. Aside from this, MAIC will continue to focus on its corporate finance and fee-based services related to financial advisory and merger and acquisition projects during the current and succeeding years. The Company and its subsidiary have no plan of entering, offering or rendering any new business or services aside from the aforementioned investment activities and investment banking services.

As of December 31, 2010, there were three (3) employees of the Parent Company. One was a clerical employee and the remaining two were administrative personnel. The Company does not anticipate any increase in its employees within the ensuing twelve (12) months.

Management's Discussion and Analysis

Results of Operations for December 31, 2010, 2009, and 2008

2010

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

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

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

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

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

2009

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

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

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

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

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

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

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

2008

Consolidated revenues for the year 2008 declined by 22% compared to previous year's figure. During the year under review, revenues consisted of fees and other commissions (34%), interest income from short-term placements (26%), unrealized foreign exchange gain (25%), dividend income (9%), and other income (6%).

The unrealized foreign exchange gain amounting to P2.6 million this year resulted mainly from the revaluation of Hong Kong dollar placements of the Company's subsidiary. The exchange rate at the end of 2008 went up to P6.1273 to a Hong Kong dollar compared to the P5.3078 exchange rate as of December 31, 2007. In contrast, an unrealized foreign exchange loss of P3.4 million was booked in 2007.

In spite of the gain from the foreign exchange transactions, there was a decline in the consolidated revenues. The decrease was mainly due to the significant reduction of approximately 84% in the dividend income received from Manila Exposition Complex, Inc. relative to the prior year, when dividend income accounted for 44% of the total consolidated revenues. Furthermore, there was a 23% decline in interest income which resulted from the reduction in the deposit placements of the Company's subsidiary due to withdrawals for its working capital requirement and the reduction in the interest rate earned from its dollar-denominated deposits.

Consolidated expenses, on the other hand, decreased by approximately 21% from to the previous year's figure. The expenses for this year comprised mainly of salaries and wages (33%), interest expense (19%), representation & entertainment (14%), professional fees (10%), taxes and occupancy (11%) and other expenses (23%).

The major components of expenses decreased substantially in the year under review compared to the prior year's comparative period. Salaries & wages decreased by 16%, interest and bank charges went down by 11%, and entertainment expense declined by 3%. This was the result of the Company's continuing cost-cutting measures.

Apart from the accounts mentioned above, there was no significant movement in the other expense components.

Financial Condition and Changes in Financial Condition

2010

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

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

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

As at December 31, 2010, the total shareholders' fund of the Company, on the consolidated basis amounted to only P4.7 million, net of minority interest. The significant decline was due to the impact of the aforementioned provision for the impairment loss in the investment of MAIC in Exportbank.

2009

There was no significant change with respect to total assets as compared to the prior year. Like in the previous year, total assets were composed mainly of investment in subsidiary and associate (80%), cash and cash equivalents (11%), available-for-sale financial assets (7%) and other assets (2%). Although there was a collection of interest receivable from deposit placements which caused the decline in the receivable account, the proceeds from collection were not sufficient for the Company's working capital requirements. There were withdrawals of funds to make up for the deficiency in working capital which reduced the cash and cash equivalent account by 11%.

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

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

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

2008

With respect to the balance sheet as at the end of 2008, there was a 7% decrease in total assets as compared to the previous year. Total assets this year were composed mainly of investment in subsidiary and associate (79%), cash and cash equivalents (12%), and available-for-sale financial assets (7%).

The 62% reduction in the loans and receivables account resulted from the collection of a loan receivable of MAIC granted in 1996 collateralized by Exportbank class A shares. The collateral shares were foreclosed by MAIC in 2008 and applied to pay-off the loan.. The foreclosure of shares increased the Company's beneficial ownership interest in the investee company from 10.29% to 10.31% on a consolidated basis.

There was also a significant decline of 72% in the other assets account which was comprised mainly of bank placements with a local bank. The said placements were preterminated in December 2008.

On the liabilities side, the accounts payable and accrued expenses account went up by 29%, mainly because of funds borrowed for the Company's working capital requirements. Furthermore, the due to related party account also increased by 31%. The additional funds borrowed from its affiliate companies were used to pay off the loans payable to a local bank amounting to P67.4 million.

As at December 31, 2008, the total shareholders' fund of the Company amounted to ₱157 million.

Prospects for 2011

The year 2011 is generally expected to turn out better than 2010 on several fronts. At the macroeconomic level, the country's economy has been buoyant with GDP growth rates remaining uncharacteristically high in recent quarters at the 6.3% to 7.3% range (annualized). Although GDP is projected to taper off somewhat in succeeding quarters, many economists are still forecasting a strong growth rate that is above 5% for the remainder of the year. Likewise, the robust growth in dollar remittances from Filipino overseas workers continues unabated and has contributed largely to the attainment of our country's soaring gross international reserves that has been at record levels for quite a while now. Not surprisingly, the peso exchange rate has been showing a steady gradual improvement vis-à-vis the U.S. dollar.

Last year's popular transition in the national leadership has considerably improved the local business sentiment and, more importantly, it has significantly raised the level of foreign investors' interest in pursuing prospective opportunities here. The foregoing favorable developments are expected to far outweigh such negative factors as the escalating oil price that has caused the inflation rate to rise but which is thought to be just a temporary setback that will probably disappear soon upon the resolution of the political unrest that is currently troubling some oil-producing Arab countries. We are therefore optimistic that the investment climate will remain upbeat and this may enable the Company to finalize and close at least one potential investment transaction within this period. If it materializes, such investment, which will likely be funded through a fresh capital infusion, may play a significant role in the Company's recapitalization plans during the year. In this regard, the Company's principal subsidiary, MAIC, is seriously looking into several promising local investment prospects that appear to have a good fit in the Company management's current business initiatives.

Key Variable and Other Qualitative and Quantitative Factors

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at December 31, 2010 consisted of P39 million of cash and cash equivalents and short-term investments. Its external sources of liquidity would consist of advances from its affiliate companies and/or major shareholders.

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

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

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

Results of Operations for September 30, 2011, 2010, and 2009

2011- Third Quarter Financial Highlights

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

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

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

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

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

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

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

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

2010- Third Quarter Financial Highlights

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

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

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

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

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

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

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

2009-Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2009 decreased by 27% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of fees and other commissions (46%), interest income from short-term placements (19%), and other income (34%).

The decline in the consolidated revenues was mainly due to the smaller unrealized foreign exchange gain of only P51,864 from the revaluation of US and Hong Kong Dollar placements booked during the quarter versus the P2.3 million recorded during the comparable quarter of last year. This was because the US and Hong Kong dollar exchange rates for this quarter appreciated vis-à-vis the peso by 0.23% only relative to the December 31, 2008 rates. On the other hand, the said foreign currencies gained against the peso by 13% as of September 30, 2008 compared to the December 31, 2007 exchange rates.

Consolidated expenses, on the other hand, decreased by approximately 25% relative to the previous year's second quarter. The expenses for this quarter were comprised of salaries and wages (40%), representation (19%), professional fees (12%), occupancy (8%), Utilities (4%), and other expenses (17%).

The decrease in the consolidated expenses was mainly due to the non-incurrence of interest expense during this quarter as there was no outstanding bank loan anymore. In the third quarter of last year, interest expenses accounted for 21% of the total expenses.

With respect to the balance sheet as at the end of the quarter under review, there was no significant change in the total assets as compared to the previous year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which was accrued as at the end of December 31, 2008. On the other hand, the transactions from related parties, net of the due to and due from, increased due to the advances obtained from the affiliates for working capital requirements. On the liabilities side, accounts payable and accrued expenses decreased by 22% due to the payment of liabilities accrued as of December 31, 2008.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2009 consisted of P50.6 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

Results of Operations for June 30, 2011, 2010, and 2009

2011- Second Quarter

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

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

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

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

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

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

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

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

2010- Second Quarter

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

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

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

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

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2010 consisted of P45 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2009-Second Quarter

Consolidated revenues for the second quarter of 2009 decreased by 31% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted of fees and other commissions (48%), interest income from short-term placements (21%), unrealized foreign exchange gain (9%) and other income (22%).

The decline in the consolidated revenues was mainly due to the smaller unrealized foreign exchange gain of only P0.3 million from the revaluation of US and Hong Kong Dollar placements booked during the quarter versus the P1.3 million recorded during the comparable quarter of last year. This was because the US and Hong Kong dollar exchange rates for this quarter appreciated vis-à-vis the peso by 1.84% only relative to the December 31, 2008 rates. On the other hand, the said foreign currencies gained against the peso by 8% as of June 30, 2008 compared to the December 31, 2007 exchange rates.

Consolidated expenses, on the other hand, decreased by approximately 25% relative to the previous year's second quarter. The expenses for this quarter were comprised of salaries and wages (41%), representation (19%), professional fees (12%), occupancy (8%), PSE fees (4%), and other expenses (16%).

The decrease in the consolidated expenses was mainly due to the non-incurrence of interest expense during this quarter as there was no outstanding bank loan anymore. In the second quarter of last year, interest expenses accounted for 21% of the total expenses.

With respect to the balance sheet as at the end of the quarter under review, there was no significant change in the total assets as compared to the previous year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which was accrued as at the end of December 31, 2008. On the other hand, the due from related parties account increased due to the advances obtained from the affiliates for working capital requirements. On the liabilities side, accounts payable and accrued expenses decreased by 33% due to the payment of liabilities accrued as of December 31, 2008.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2009 consisted of P50.8 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

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

- a. Revenue Growth- This measures how fast the Company's business is expanding. The ratio shows the annualized rate of increase (or decrease) of the Company's revenues.
- b. Net Income Growth- Similar to revenue growth, this ratio is an indicator of the rate of growth of the Company's bottom line figure.
- c. Return on Equity- For an investor who wants to have an indication of his investment returns, this ratio provides such a measure.
- d. Current Ratio- This ratio measures the Company's ability to pay its currently maturing obligations.
- e. Debt-to-Equity Ratio- This ratio offers a method of assessing the company's financial health and gauging the balance sheet durability.

Top Five (5) Performance Indicators

December 31, 2010, 2009 and 2008

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2010	2009	2008	2010	2009	2008
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-13.01%	-16.31%	-22.03%	-39.45%	-17.89%	-45.08%
2. Net Loss Growth	$\frac{\text{Net Loss Y1-Y0}}{\text{Net Loss Y0}}$	-3206.03%	-33.09%	-18.53%	6630.95%	32.80%	0.21%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Ave. Stockholders' Equity}}$	-147.01%	-2.56%	-5.76%	-220.52%	-1.02%	-3.06%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.21x	0.27x	0.31x	10.14x	10.81x	16.09x
5. Debt-to-Equity- Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	4.62x	.71x	0.69x	0.95x	0.30x	0.38x

Note:

Y1= Current year

Y0= Previous year

Third Quarter Top Five (5) Performance Indicators
September 30, 2011, 2010 and 2009

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2011	2010	2009	2011	2010	2009
1. Revenue Growth	<u>Revenue Y1-Y0</u> Revenue Y0	10.72%	-25.90%	-27.44%	-8.08%	-39.75%	-17.92%
2. Net Loss Growth	<u>Net Loss Y1-Y0</u> Net Loss Y0	-97.18%	3249.26%	-24.47%	-98.23%	13029.06%	52.89%
3. Return on Equity	<u>Net Income</u> Ave. Stockholders' Equity	-10.67%	-94.14%	-2.86%	-227.54%	-215.06%	-052%
4. Current Ratio	<u>Current Assets</u> Current Liabilities	0.17x	0.22x	0.28x	10.13x	7.21x	10.23x
5. Debt-to-Equity- Ratio	<u>Total Liabilities</u> Stockholders' Equity	5.27x	4.48x	0.70x	0.95x	0.94x	.030x

Note:

Y1= Current year

Y0= Previous year

Second Quarter Top Five (5) Performance Indicators
June 30, 2011, 2010 and 2009

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2011	2010	2009	2011	2010	2009
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	19.93%	-16.17%	-30.93%	-5.68%	-38.05%	-16.32%
2. Net Income Growth*	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	-98.32%	4554.52%	-22.20%	-98.77%	14440.17%	21.75%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	-5.84%	-317.38%	-1.12%	-222.56%	-208.54%	-0.46%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.19x	0.24x	0.28x	9.52x	7.42x	11.65x
5. Debt-to-Equity- Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	5.02x	4.19x	0.70x	0.96x	0.93x	0.30x

* Losses

Note:

Y1= Current year

Y0= Previous year

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

Medco Holdings, Inc. (the “Company”)

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

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

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

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

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

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

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

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

In 2010, sixty-one percent (61%) of the Company's revenues were contributed mainly by its principal subsidiary, MAIC, and comprised of commissions and fees (44%), dividend income (29%), interest income from placements and deposits (16%), and other income (11%). The dividend income was a cash dividend from Manila Exposition Complex, Inc.

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

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

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

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

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

On August 20, 2010, MAIC filed with the SEC a request for voluntary cancellation of its Investment House License. MAIC has been somewhat inactive in the securities underwriting business and such inactivity is expected to continue indefinitely. MAIC also recognized an allowance for impairment loss on its investment in common shares of Export and Industry Bank, Inc., which comprised almost 79% of its total assets as of December 31, 2010. Such impairment will result MAIC's inability to maintain the capital requirement for investment houses under the Investment Houses Law. As of this writing, MAIC has not yet received the SEC's formal approval on its request.

Export & Industry Bank, Inc. (“Exportbank”)

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

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

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

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

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

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

Consistent with its business plan on the basis of which such additional capital was infused into Exportbank in 2006, the bank's remaining none-core assets, which include various condominium units and parking slots located in Exportbank Plaza, were sold to EIB Realty Developers, Inc. in 2007.

On 30 July 2010, Export and Industry Bank (EIB) disclosed with the Philippine Stock Exchange, in view of the approval-in-principle granted by the Bangko Sentral ng Pilipinas on 16 July 2010, the approval of the board of directors of EIB for the sale of all of EIB's assets in favor of Banco de Oro Unibank, Inc. (BDO) in consideration of the latter's assumption of all of EIB's liabilities, including all of its deposit liabilities, subject to the execution of appropriate documentation and the fulfillment of certain closing conditions which EIB will comply with within the period prescribed. On September 20, 2010, the Exportbank shareholders approved the proposed transaction with BDO.

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

Other Subsidiary

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

COMPLIANCE ON THE CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

Market Information

The Company's common shares are listed and traded on the PSE.

The Company filed a voluntary trading suspension of its shares on 2 August 2010. The trading of its shares is still suspended as of this filing date.

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

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

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

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

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

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

The closing price of ₱0.47 per share on August 2, 2010 was the last recorded transaction for said shares on the PSE prior to the filing hereof.

(2) Holders

Based on the records of the Company's stock transfer office, Philippine Stock Transfer, Inc., as at October 31, 2011, there were 688 holders of the common stock of the Company. The names of the top 20 shareholders and the number of shares and the percentage of total shares outstanding held by each stockholders are set forth below.

MEDCO HOLDINGS, INC.
LIST OF TOP 20 STOCKHOLDERS
As of 31 October 2011

RANK	NAME	Nationality	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
1	Citivest Asia Limited	Foreign	322,314,874	46.0450%
2	PCD Nominee Corporation-Filipino	Filipino	141,453,144	20.2076%
3	PCD Nominee Corporation-Non-Filipino	Foreign	55,854,012	7.9791%
4	Clariwealth Investment Limited	Foreign	34,500,000	4.9286%
5	Green Target Limited	Foreign	34,500,000	4.9286%
6	Prowealth Asia Limited	Foreign	34,500,000	4.9286%
7	Sinojade Limited	Foreign	34,500,000	4.9286%
8	Suncentury Asia Limited	Foreign	34,500,000	4.9286%
9	Li Chih Hui	Filipino	3,300,000	0.4714%
10	Rexlon Gatchalian	Filipino	1,000,000	0.1429%
11	Rodrigo, Raul	Filipino	1,000,000	0.1429%
12	Lim, Teczon L.	Chinese	400,000	0.0571%
13	Lo, Eduardo	Filipino	394,000	0.0563%
14	Cordova, Lawrence	Filipino	350,000	0.0500%
15	Belson Sec., Inc. A/C #196-358	Filipino	300,000	0.0429%
16	Marita Ibardolaza	Filipino	100,000	0.0143%
17	Sy, Leticia C.	Filipino	90,000	0.0129%
18	Chong Lilian	Filipino	50,000	0.0071%
19	Bautista, Emmanuel T. &/or Bernadita P.B.	Filipino	40,000	0.0057%
20	Uy, Arturo &/or Arnel Uy	Filipino	40,000	0.0057%

(3) Dividends

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

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

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

Medco Holdings, Inc.

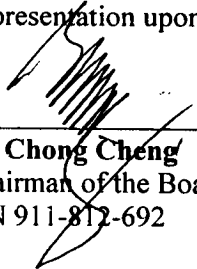
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

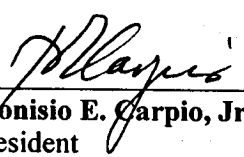
April 15, 2011

The management of **Medco Holdings, Inc.** (the "Company") is responsible for the presentation and fair presentation of the financial statements for the years ended December 31, 2010, 2009 and 2008 in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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


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


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


Ma. Lourdes B. Bathan
Principal Accounting Officer
TIN 163-257-196

SUBSCRIBED AND SWORN to before me this APR 15 2011 CITY OF MAKATI
day of _____ at _____, affiant
exhibiting to me their SSS /Passport Numbers as follow:

Sai Chong Cheng

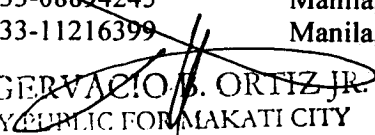
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July 9, 2008/United Kingdom of
Great Britain and Northern Ireland
Manila, Philippines
Manila, Philippines

Dionisio E. Carpio, Jr.
Ma. Lourdes B. Bathan

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Book No. XII
Series of 2011.


ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2011
ROLL OF ATTORNEY 40691
MCLE COMPLIANCE NO. III-0014282
IBP NO. 650155 - LIFETIME MEMBER
PCE NO. 2641653 JAN. 3, 2011 MAKATI CITY

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Medco Holdings, Inc. and subsidiaries (the "Group"), and Medco Holdings, Inc. (the "Parent Company"), which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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



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

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

Basis for Qualified Opinion

As discussed in Note 10 to the financial statements, the Group has an investment in Export and Industry Bank, Inc. (EIB), representing 10.31% ownership and a carrying value of P148,746,260 as of December 31, 2010. However, due to the absence of reliable data (such as the current stock market price of the EIB shares and the December 31, 2010 audited financial statements of EIB) needed to assess possible impairment of the investment, we are unable to satisfy ourselves as to the recoverability of the carrying value of the investment by means of other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects on the 2010 Group financial statements of the matter described in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010, in accordance with Philippine Financial Reporting Standards.

Emphasis of a Matter

Without further qualifying our opinion, we draw attention to Note 1 to the financial statements which indicates that the Group incurred net losses of P226,284,153, P6,844,586 and P10,229,695 for the years ended December 31, 2010, 2009 and 2008, respectively, and has a deficit of P720,393,526 and P573,761,154, as at December 31, 2010 and 2009, respectively. In addition, the Parent Company incurred net losses of P133,344,574, P3,514,444 and P7,642,409 for the years ended December 31, 2010, 2009 and 2008, respectively, and has a deficit of P722,979,412 and P589,634,838 as at December 31, 2010 and 2009, respectively. Although the Group and the Parent Company have deficits as of December 31, 2010 and 2009, management believes that the Group and the Parent Company will eventually be able to attain positive business results in the future. Consequently, the accompanying financial statements have been prepared assuming that the Group will continue as a going concern.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2010 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 18 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: Benjamin P. Valdez
Partner

CPA Reg. No. 0028485

TIN 136-619-880

PTR No. 2641799, January 3, 2011, Makati City

Partner's SEC Accreditation No. 0009-AR-2 (until Mar. 1, 2012)

BIR AN 08-002511-11-2008 (until Nov. 24, 2011)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

April 15, 2011

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

		<u>Group</u>		<u>Parent Company</u>	
	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>A S S E T S</u>					
CASH AND CASH EQUIVALENTS	7	P 39,053,962	P 49,792,328	P 1,867,236	P 1,208,875
AVAILABLE-FOR-SALE FINANCIAL ASSETS - Net	8	31,792,321	31,743,437	31,268,750	31,268,750
LOANS AND RECEIVABLES - Net	9	235,454	369,419	69,858	63,076
DUE FROM RELATED PARTIES	13	686,569	691,998	49,733,878	53,274,867
INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE - Net	10	148,746,260	366,881,400	68,285,821	199,995,929
OTHER ASSETS	11	<u>8,771,916</u>	<u>8,011,985</u>	<u>950,647</u>	<u>834,007</u>
TOTAL ASSETS		<u>P 229,286,482</u>	<u>P 457,490,567</u>	<u>P 152,176,190</u>	<u>P 286,645,504</u>
<u>LIABILITIES AND EQUITY</u>					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	12	P 5,113,554	P 4,800,738	P 981,430	P 717,306
DUE TO RELATED PARTIES	13	<u>183,364,277</u>	<u>185,645,909</u>	<u>148,675,260</u>	<u>150,064,124</u>
Total Liabilities		<u>188,477,831</u>	<u>190,446,647</u>	<u>149,656,690</u>	<u>150,781,430</u>
EQUITY ATTRIBUTABLE TO EQUITYHOLDERS OF THE PARENT COMPANY	6	4,728,585	151,329,405	2,519,500	135,864,074
NON-CONTROLLING INTEREST		<u>36,080,066</u>	<u>115,714,515</u>	<u>-</u>	<u>-</u>
Total Equity		<u>40,808,651</u>	<u>267,043,920</u>	<u>2,519,500</u>	<u>135,864,074</u>
TOTAL LIABILITIES AND EQUITY		<u>P 229,286,482</u>	<u>P 457,490,567</u>	<u>P 152,176,190</u>	<u>P 286,645,504</u>

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	Group			Parent Company		
		2010	2009	2008	2010	2009	2008
REVENUES							
Dividends		P 2,250,000	P 935,249	P 978,773	P 2,250,000	P 900,000	P 900,000
Interest		1,268,133	1,801,857	2,768,907	3,059	1,876	2,890
Commission and fees		-	3,441,177	3,598,182	-	-	-
Rent		-	523,246	581,384	-	-	-
Foreign exchange gain		-	-	2,694,324	-	-	7,407
Others		4,260,274	2,239,949	62,000	766,015	-	-
		<u>7,778,407</u>	<u>8,941,478</u>	<u>10,683,570</u>	<u>3,019,074</u>	<u>901,876</u>	<u>910,297</u>
EXPENSES							
Impairment loss		218,135,140	-	-	131,710,108	-	-
Employee benefits	14	6,456,394	6,505,868	6,736,825	2,472,554	2,211,428	2,174,095
Representation		2,661,184	2,754,578	2,839,930	661,900	712,278	775,636
Professional and management fees		2,097,459	2,081,586	2,056,665	491,300	461,300	431,000
Occupancy	13	1,600,047	1,387,978	1,397,583	312,000	312,000	312,000
Foreign exchange losses - net		804,766	382,691	-	3,040	1,380	-
Taxes and licenses		348,629	547,944	812,908	21,685	35,177	346,827
Interest and bank charges		-	7,359	3,887,779	-	-	3,875,180
Others		1,720,061	1,719,538	2,700,996	675,129	682,382	637,968
		<u>233,823,680</u>	<u>15,387,542</u>	<u>20,432,686</u>	<u>136,347,716</u>	<u>4,415,945</u>	<u>8,552,706</u>
LOSS BEFORE TAX		226,045,273	6,446,064	9,749,116	133,328,642	3,514,069	7,642,409
TAX EXPENSE	15	<u>238,880</u>	<u>398,522</u>	<u>480,579</u>	<u>15,932</u>	<u>375</u>	<u>-</u>
NET LOSS		226,284,153	6,844,586	10,229,695	133,344,574	3,514,444	7,642,409
OTHER COMPREHENSIVE LOSS (INCOME)		(48,884)	(292,512)	759,136	-	-	-
TOTAL COMPREHENSIVE LOSS		<u>P 226,235,269</u>	<u>P 6,552,074</u>	<u>P 10,988,831</u>	<u>P 133,344,574</u>	<u>P 3,514,444</u>	<u>P 7,642,409</u>
Attributable to:							
Equityholders of the Parent Company		P 146,632,372	P 5,663,850	P 9,312,348			
Non-controlling interest		79,651,781	1,180,736	917,347			
		<u>P 226,284,153</u>	<u>P 6,844,586</u>	<u>P 10,229,695</u>			
Loss Per Share	16	<u>P 0.323</u>	<u>P 0.009</u>	<u>P 0.016</u>			

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

Group								
<u>Note</u>	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Net Unrealized Fair Value Gains (Losses) on Available-for-sale Financial Assets</u>	<u>Deficit</u>	<u>Total Attributable to Equityholders of the Parent Company</u>	<u>Non-controlling Interest</u>	<u>Total Equity</u>	
BALANCE AT JANUARY 1, 2010	P 700,000,000	P 25,498,912	(P 408,353)	(P 573,761,154)	P 151,329,405	P 115,714,515	P 267,043,920	
Total comprehensive loss	-	-	31,552	(146,632,372)	(146,600,820)	(79,634,449)	(226,235,269)	
BALANCE AT DECEMBER 31, 2010	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 376,801)</u>	<u>(P 720,393,526)</u>	<u>P 4,728,585</u>	<u>P 36,080,066</u>	<u>P 40,808,651</u>	
BALANCE AT JANUARY 1, 2009	P 700,000,000	P 25,498,912	(P 597,152)	(P 568,097,304)	P 156,804,456	P 116,791,538	P 273,595,994	
Total comprehensive loss	-	-	188,799	(5,663,850)	(5,475,051)	(1,077,023)	(6,552,074)	
BALANCE AT DECEMBER 31, 2009	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 408,353)</u>	<u>(P 573,761,154)</u>	<u>P 151,329,405</u>	<u>P 115,714,515</u>	<u>P 267,043,920</u>	
BALANCE AT JANUARY 1, 2008	P 700,000,000	P 25,498,912	(P 107,175)	(P 558,784,956)	P 166,606,781	P 117,978,034	P 284,584,815	
Additions	-	-	-	-	-	10	10	
Total comprehensive loss for the year	-	-	(489,977)	(9,312,348)	(9,802,325)	(1,186,506)	(10,988,831)	
BALANCE AT DECEMBER 31, 2008	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>(P 597,152)</u>	<u>(P 568,097,304)</u>	<u>P 156,804,456</u>	<u>P 116,791,538</u>	<u>P 273,595,994</u>	

Parent Company						
	Note	Capital Stock	Additional Paid-in Capital	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Financial Assets	Deficit	Total
BALANCE AT JANUARY 1, 2010		P 700,000,000	P 25,498,912	p -	(P 589,634,838)	P 135,864,074
Total comprehensive loss for the year		-	-	-	(133,344,574)	(133,344,574)
BALANCE AT DECEMBER 31, 2010	6	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>p -</u>	<u>(P 722,979,412)</u>	<u>P 2,519,500</u>
BALANCE AT JANUARY 1, 2009		P 700,000,000	P 25,498,912	P -	(P 586,120,394)	P 139,378,518
Total comprehensive loss for the year		-	-	-	(3,514,444)	(3,514,444)
BALANCE AT DECEMBER 31, 2009	6	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>-</u>	<u>(P 589,634,838)</u>	<u>P 135,864,074</u>
BALANCE AT JANUARY 1, 2008		P 700,000,000	P 25,498,912	-	(P 584,492,376)	P 141,006,536
Total comprehensive loss for the year		-	-	-	(7,642,409)	(7,642,409)
BALANCE AT DECEMBER 31, 2008	6	<u>P 700,000,000</u>	<u>P 25,498,912</u>	<u>-</u>	<u>(P 592,134,785)</u>	<u>P 133,364,127</u>

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	Group			Parent Company		
		2010	2009	2008	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES							
Loss before tax		(P 226,045,273)	(P 6,446,064)	(P 9,749,116)	(P 133,328,642)	(P 3,514,069)	(P 7,642,409)
Adjustments for:							
Impairment loss		218,135,140	-	-	131,710,108	-	-
Interest income		(1,268,133)	(1,801,857)	(2,768,907)	(2,447)	(1,876)	-
Unrealized foreign exchange loss (gain)		804,766	382,691	(2,694,324)	3,040	1,380	7,407
Depreciation and amortization		16,604	16,604	25,171	-	-	-
Interest expense		-	7,359	3,887,779	-	-	3,875,180
Gain on sale of transportation equipment		-	-	(62,000)	-	-	-
Operating loss before working capital changes		(8,356,896)	(7,841,267)	(11,361,397)	(1,617,941)	(3,514,565)	(3,759,822)
Decrease (increase) in loans and receivables		139,394	550,051	3,538,583	(6,782)	423,041	(465,708)
Decrease (increase) in other assets		(776,535)	(767,565)	314,787	(116,640)	(332,858)	415,189
Increase (decrease) in accounts payable and accrued expenses		312,816	(629,999)	1,361,953	264,124	390,557	(42,717)
Cash generated used in operations		(8,681,221)	(8,688,780)	(6,146,074)	(1,477,239)	(3,033,825)	(3,853,058)
Cash paid for income taxes	15	(238,880)	(294,984)	(480,579)	(15,932)	(375)	-
Net Cash From Operating Activities		(8,920,101)	(8,983,764)	(6,626,653)	(1,493,171)	(3,034,200)	(3,853,058)
CASH FLOWS FROM INVESTING ACTIVITIES							
Net decrease in short-term investments	11	-	-	19,108,347	-	-	-
Interest received		1,268,133	1,801,857	2,285,890	2,447	1,876	-
Net increase in investments in subsidiaries and associate	10	-	-	(810,000)	-	-	-
Proceeds from sale of transportation equipment		-	-	62,000	-	-	-
Net decrease (increase) in available-for-sale financial assets		-	-	-	-	-	-
Net Cash From (Used in) Investing Activities		1,268,133	1,801,857	20,646,237	2,447	1,876	-
CASH FLOWS FROM FINANCING ACTIVITIES							
Payments of borrowings		-	-	(67,423,681)	-	-	(67,423,681)
Additional borrowings from related parties		(2,281,632)	1,575,483	51,339,874	(1,388,864)	2,062,637	73,238,014
Interest paid		-	(7,359)	(3,887,779)	-	-	(3,875,180)
Collection of advances to related parties		-	-	-	3,540,989	2,041,961	-
Net Cash From (Used in) Financing Activities		(2,281,632)	1,568,124	(19,971,586)	2,152,125	4,104,598	1,939,153
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS							
		(804,766)	(382,691)	2,554,006	(3,040)	(1,380)	(7,407)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS							
		(10,738,366)	(5,996,474)	(3,397,996)	658,361	1,070,894	(1,921,312)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		49,792,328	55,788,802	59,186,798	1,208,875	137,981	2,059,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P 39,053,962	P 49,792,328	P 55,788,802	P 1,867,236	P 1,208,875	P 137,981

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.01 Incorporation and Nature of Business

Medco Holdings, Inc. (the Parent Company) is registered with the Securities and Exchange Commission (SEC) as a holding company. The Parent Company's shares of stocks are listed at the Philippine Stock Exchange (PSE). The registered office of the Parent Company and subsidiaries (the Group) is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

The Parent Company is 46.04% owned by Citivest Asia Limited, which is a wholly owned subsidiary of Lippo China Resources Limited (LCR or the Ultimate Parent).

The Group holds a 10.31% interest in Export and Industry Bank, Inc. (EIB) while the Parent Company holds a 64.54% interest in Medco Asia Investment Corporation (MAIC) and a 2.45% interest in EIB. MAIC was registered with the SEC on April 7, 1995 primarily to conduct business as an investment house.

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations as of December 31, 2010.

1.02 Approval of Financial Statements

The financial statements of the Group and of the Parent Company for the year ended December 31, 2010 (including the comparatives for the year ended December 31, 2009) were authorized for issue by the Board of Directors (BOD) on April 15, 2011.

1.03 Status of Operations

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred recurring net losses of P226,284,153 and P6,844,586 for the years ended December 31, 2010 and 2009, respectively. In addition, the Parent Company incurred recurring net losses amounting to P133,344,574 and P3,514,444 for the years ended December 31, 2010 and 2009, respectively. The Group reported deficits of P720,393,526 and P573,761,154 as at December 31, 2010 and 2009, respectively, while the Parent Company reported deficits of P722,979,412 and P589,634,838 as of December 31, 2010 and 2009, respectively. Although the Group has incurred a deficit as of December 31, 2010 and 2009, management believes that the Group will be able to achieve positive business operations in the future. Consequently, the accompanying financial statements have been prepared assuming that the Group will continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Group 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. These financial statements have been prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets. 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 Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively or 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 peso, the Parent Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

2.02 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2010 that are Relevant to the Group

In 2010, the Group adopted the following new PFRS, revisions, amendments and annual improvements that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2010.

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation International Financial Reporting Interpretations Committee(IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are relevant information about these new and amended standards.

- (i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there were no transactions with non-controlling interests during the year.
- (ii) PFRS 3 (Revised 2008), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Company did not have any business acquisition during the year, hence, the adoption of the revised standard has no effect on the 2010 financial statements.

- (iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements since the Group did not distribute non-cash assets to stockholders during the year.
- (iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the 2009 Improvements to PFRS. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements but which did not also have any material impact on its financial statements:
- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
 - PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.
 - PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.
 - PAS 18 (Amendment), *Revenue*. The amendment provides guidance in determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

(b) *Effective in 2010 that are not Relevant to the Group*

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Group's financial statements:

PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Company Cash-settled Share-based Payment Transactions
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendments
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements.

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor 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.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Company usually provides adequate information in its financial statements in compliance with disclosure requirements.
- (iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
- o Phase 1: Classification and Measurement
 - o Phase 2: Impairment Methodology
 - o Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

- (v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to Philippine Financial Reporting Standards* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PAS 1 (effective from July 1, 2010), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

2.03 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses that are also recognized in equity.

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

Upon adoption in 2010 of PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*, the Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence. It has applied the new policy prospectively as required by the standards beginning January 1, 2010. As a result, no adjustments were necessary to any of the amounts previously recognized and reported in the financial statements.

Before the adoption of the revised PAS 27, transactions with non-controlling interests were treated as transactions with parties external to the group. As such, disposals resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Also previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

Non-controlling interests in 2010 and 2009 represent the interests not held by the Group in MAIC.

2.04 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, 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. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

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

(a) Loans and Receivables

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. 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 cash flows.

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

(b) Available-for-sale Financial Assets

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

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

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

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

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

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

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

2.05 Financial Liabilities

Financial liabilities include accounts payable and accrued expenses and due to related parties which are measured at amortized cost using the effective interest method.

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

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

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

2.06 Provisions and Commitments

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

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

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

2.07 Equity

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

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

Net unrealized fair value gains (losses) on available-for-sale financial assets comprise gains and losses due to the revaluation of available-for-sale financial assets.

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

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

2.08 Related Party Transactions

Related party transactions are transfer of resources, services or obligations between Medco Holdings, Inc. 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 or more intermediaries, control or are controlled by, or under common control with the Medco Holdings Inc. and subsidiaries; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of Medco Holdings Inc. and subsidiaries that gives them significant influence over Medco Holdings Inc. and subsidiaries and close members of the family of any such individual.

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

2.09 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. Financial information on business segments is presented in Note 4.02.

2.10 Revenue and Expense Recognition

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

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

- (a) *Commission and fees* – Revenue from professional services provided to subsidiaries of EIB is recognized as the service has been completed.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (c) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.
- (d) *Rental income* – Revenue is recognized on a straight-line basis over the term of the lease (see Note 2.09).

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

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

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

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

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

2.14 Employee Benefits

(a) Post-employment benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution 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 Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

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

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

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period.

2.15 Earnings Per Share (EPS)

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

2.16 Income Taxes

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect 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.

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Available-for-sale Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

As of December 31, 2010, 2009 and 2008, the Group did not recognize any impairment losses in available-for-sale financial assets.

(b) Operating Lease

The Group has entered in a lease agreement as lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense charged to the Group's operations amounted to P1,342,586 in 2010, P1,144,734 in 2009 and P1,152,119 in 2008, while the rent expense charged to the Parent Company's operations amounted to P312,000 in 2010, 2009 and 2008. Rent expense is presented as part of Occupancy in the statements of comprehensive income (see Note 13).

(c) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.06 and relevant disclosures are presented in Note 17.

3.02 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 Loans and Receivables

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

No provision for impairment losses was recognized by the Group in 2010, 2009, and 2008.

(b) Valuation of Financial Assets Other than Loans and Receivables

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, 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 base of the instrument. The amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

Fair value gain (loss) on available-for-sale financial assets of P48,884 in 2010, P188,799 in 2009 and (P489,977) in 2008 was reported by the Group in the other comprehensive income and in the equity section.

(c) Realizable Amount of Deferred Tax Assets

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

The Group did not recognize any deferred tax asset as of December 31, 2010 and 2009 (see Note 15).

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No additional impairment losses were recognized by the Group as of December 31, 2010, 2009 and 2008.

(e) *Retirement Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated retirement benefit obligation of the Group amounted to P2,485,851 and P1,950,370, respectively, in 2010 and 2009; while the net unrecognized actuarial gain is P1,029,174 and P777,361, respectively, in 2010 and 2009 (see Note 14.03). On the other hand, the retirement benefit obligation of the Parent Company amounted to P403,309 in 2010 and P220,420 in 2009, while the net unrecognized actuarial gain is P589,585 in 2010 and P401,658 in 2009.

4. SEGMENT REPORTING

4.01 Business Segments

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

- (a) Investment banking – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.
- (b) Others – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

4.02 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the years ended December 31, 2010 and 2009 follows:

	2010		
	Investment Banking	Others	Total
Income:			
Dividend income	P -	P 2,250,000	P 2,250,000
Commission and fees	3,441,177	-	3,441,177
Interest income	1,257,338	10,795	1,268,133
Other income	<u>53,082</u>	<u>766,015</u>	<u>819,097</u>
Gross revenues	4,751,597	3,026,810	7,778,407
Expenses	<u>229,148,370</u>	<u>4,675,310</u>	<u>233,823,680</u>
Loss before income tax	(224,396,773)	(1,648,500)	(226,045,273)
Income tax expense	<u>222,948</u>	<u>15,932</u>	<u>238,880</u>
Operating loss	(P 224,619,721)	(P 1,664,432)	(226,284,153)
Non-controlling interest in net losses of subsidiary			<u>79,651,781</u>
Net loss			(P 146,632,372)
Segment assets	<u>P 198,315,126</u>	<u>P 26,156,500</u>	P 224,471,626
Goodwill			<u>4,814,856</u>
Total assets			<u>P 229,286,482</u>
Segment liabilities	<u>P 46,723,825</u>	<u>P 141,754,006</u>	<u>P 188,477,831</u>
Other segment information:			
Impairment loss	<u>P -</u>	<u>P 218,135,140</u>	<u>P 218,135,140</u>
	2009		
	Investment Banking	Others	Total
Income:			
Dividend income	P 35,249	P 900,000	P 935,249
Commission and fees	3,441,177	-	3,441,177
Interest income	1,733,213	68,644	1,801,857
Foreign exchange gain	523,246		523,246
Other income	<u>2,239,949</u>	<u>-</u>	<u>2,239,949</u>
Gross revenues	7,972,834	968,644	8,941,878
Expenses	<u>10,911,806</u>	<u>4,475,736</u>	<u>15,387,542</u>
Loss before income tax	(2,938,972)	(3,507,092)	(6,446,064)
Income tax expense	<u>398,147</u>	<u>375</u>	<u>398,522</u>
Operating loss	(P 3,337,119)	(P 3,507,467)	(6,844,586)
Non-controlling interest in net losses of subsidiary			<u>1,180,736</u>
Net loss			(P 5,663,850)
Segment assets	<u>P 417,119,499</u>	<u>P 35,556,212</u>	P 452,675,711
Goodwill			<u>4,814,856</u>
Total assets			<u>P 457,490,567</u>
Segment liabilities	<u>P 39,416,364</u>	<u>P 151,030,283</u>	<u>P 190,446,647</u>

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.01 Foreign Currency Risk

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

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

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

	Group		Parent	
	U.S. Dollar	HK Dollar	U.S. Dollar	HK Dollar
Financial assets	P 14,951,018	P -	P 53,331	P -
Financial liabilities	-	(1,269,780)	-	-
Short-term exposure	<u>P 14,951,018</u>	<u>(P 1,269,780)</u>	<u>P 53,331</u>	<u>P -</u>

As of December 31, 2009, the short-term exposure on foreign currency denominated financial assets, translated into Philippine pesos at the closing rate, follows:

	Group		Parent	
	U.S. Dollar	HK Dollar	U.S. Dollar	HK Dollar
Financial assets	P 17,351,439	P -	P 56,160	P -
Financial liabilities	-	(1,345,839)	-	-
Short-term exposure	<u>P 17,351,439</u>	<u>(P 1,345,839)</u>	<u>P 56,160</u>	<u>P -</u>

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

	Group		Parent	
	2010	2009	2010	2009
PHP - USD	P 2,477,441	P 3,645,537	P 8,837	P 11,799
PHP - HKD	(198,410)	(262,304)	-	-
Total	<u>P 2,279,031</u>	<u>P 3,383,233</u>	<u>P 8,837</u>	<u>P 11,799</u>

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

5.02 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At December 31, 2010 and 2009, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 0.13% and +/- 1.08% for savings deposits and short-term placements as of December 31, 2010 and +/- 0.56% and +/- 1.75% for savings deposits and short-term placements as of December 31, 2009. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	Group		Parent	
	2010	2009	2010	2009
Net profit before tax	P 253,923	P 615,746	P 2,334	P 6,770
Equity	203,138	492,597	1,867	5,416

5.03 Liquidity Risk

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

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

	Group					
	2010			2009		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 39,053,962	P -	P 39,053,962	P 49,792,328	P -	P 49,792,328
Available-for sale financial assets	-	31,792,321	31,792,321	-	31,743,437	31,743,437
Loans and receivables (at gross)	89,225	40,459,229	40,548,454	155,811	40,526,608	40,682,419
	<u>P 39,143,187</u>	<u>P 72,251,550</u>	<u>P 111,394,737</u>	<u>P 49,948,139</u>	<u>P 72,270,045</u>	<u>P 122,218,184</u>
Financial Liabilities:						
Due to related parties	P 183,364,277	P -	P 183,364,277	P 185,645,909	P -	P 185,645,909
Accounts payable and accrued expenses	141,574	2,470,809	2,612,383	448,933	2,401,436	2,850,369
	<u>P 183,505,851</u>	<u>P 2,470,810</u>	<u>P 185,976,660</u>	<u>P 186,094,842</u>	<u>P 2,401,436</u>	<u>P 188,496,278</u>

		Parent Company					
		2010			2009		
		Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:							
Cash and cash equivalents	P	1,867,236	P -	P 1,867,236	P 1,208,875	P -	P 1,208,875
Available-for sale financial assets		-	31,268,750	31,268,750	-	31,268,750	31,268,750
Loans and receivables (at gross)		-	40,382,858	40,382,858	-	40,374,076	40,374,076
	P	<u>1,867,236</u>	P <u>71,651,608</u>	P <u>73,518,844</u>	P <u>1,208,875</u>	P <u>71,644,826</u>	P <u>72,853,701</u>
Financial Liabilities:							
Due to related parties	P	148,675,260	P -	P 148,675,260	P 150,064,124	P -	P 150,064,124
Accounts payable and accrued expenses		38,980	523,821	562,801	12,330	484,556	496,886
	P	<u>148,714,240</u>	P <u>523,821</u>	P <u>149,238,061</u>	P <u>150,076,454</u>	P <u>484,556</u>	P <u>150,561,010</u>

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

5.04 Credit Risk

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

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

	Notes	Group		Parent	
		2010	2009	2010	2009
Cash	7	P 39,045,962	P 49,784,328	P 1,867,236	P 1,208,875
Loans and receivables	9	235,454	369,419	69,858	63,076
Due from related parties	13	686,569	691,998	49,733,878	53,274,867
Other assets	11	<u>384,687</u>	<u>239,459</u>	-	-
		<u>P 40,352,672</u>	<u>P 51,085,204</u>	<u>P 51,670,972</u>	<u>P 54,546,818</u>

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

As part of Group policy, bank deposits and short-term placements are only maintained with reputable financial institutions. Cash on hand amounting to P8,000 in 2010 and 2009 is not included in determining credit risk. Cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum insurance coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) No. 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio of the Group and the Parent Company as of December 31 are shown below.

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Total liabilities	P 188,477,831	P 190,446,647	P 149,656,690	P 150,781,430
Total equity	40,808,651	267,043,920	2,519,500	135,864,074
Debt-to-equity ratio	<u>4.62:1</u>	<u>0.71 : 1</u>	<u>59.40:1</u>	<u>1.11 : 1</u>

The Group has honored its covenant obligations, including maintaining the required debt-to-equity ratio for both years.

As of December 31, 2010 and 2009, the Parent Company has a total authorized capital stock of 700,000,000 common shares at P1 par value per share. As of those dates, all of the shares were issued and outstanding.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Short-term placements	P 21,470,487	P 28,315,408	P -	P -
Cash in banks	17,575,475	21,468,920	1,867,236	1,208,875
Petty cash fund	<u>8,000</u>	<u>8,000</u>	<u>-</u>	<u>-</u>
	<u>P 39,053,962</u>	<u>P 49,792,328</u>	<u>P 1,867,236</u>	<u>P 1,208,875</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 90 days and earn annual effective interest ranging from 1.5% to 6.00% in 2010 and 1.75% to 6.00% in 2009.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cost				
Quoted	P 1,083,578	P 1,083,578	P -	P -
Not quoted	<u>76,292,533</u>	<u>76,292,533</u>	<u>76,268,750</u>	<u>76,268,750</u>
	77,376,111	77,376,111	76,268,750	76,268,750
Allowance for impairment	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>
	32,376,111	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	<u>(583,790)</u>	<u>(632,674)</u>	<u>-</u>	<u>-</u>
Market value	<u>P 31,792,321</u>	<u>P 31,743,437</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

The investment in available-for-sale financial asset of the Parent Company in 2010 and 2009 pertains to the 18.18% investment (P31,268,750) in Manila Exposition Complex, Inc. and 10% investment (P45,000,000) in I-Mart Corporation. The Group provided a 100% allowance for impairment losses on its investment in I-Mart Corporation as a result of the latter's cessation of business.

The fair value of quoted available-for-sale financial assets have been determined directly by reference to published prices in active markets.

9. LOANS AND RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Accounts receivable	P 40,459,229	P 40,526,608	P 40,382,858	P 40,376,076
Interest receivable	<u>89,225</u>	<u>155,811</u>	<u>-</u>	<u>-</u>
	40,548,454	40,682,419	40,382,858	40,376,076
Allowance for impairment	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>
	<u>P 235,454</u>	<u>P 369,419</u>	<u>P 69,858</u>	<u>P 63,076</u>

The net carrying amounts of these financial assets are reasonable approximation of their fair values.

10. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	Group		Parent Company	
		2010	2009	2010	2009
At acquisition cost					
Associates:					
EIB	10.31%	P 860,659,849	P 860,659,849		
	2.45%			P 478,380,834	P 478,380,834
Subsidiary:					
MAIC	64.54%	<u>-</u>	<u>-</u>	<u>199,995,929</u>	<u>199,995,929</u>
		860,659,849	860,659,849	678,376,763	678,376,763
Allowance for impairment		(711,913,589)	(493,778,449)	(610,090,942)	(478,380,834)
		<u>P 148,746,260</u>	<u>P 366,881,400</u>	<u>P 68,285,821</u>	<u>P 199,995,929</u>

The net carrying amount of the Parent Company's investments at the end of 2010 and 2009 pertain to MAIC.

In September 2008, MAIC purchased additional three million Class A shares of EIB amounting to P810,000 which increased the Group's ownership interest in EIB from 10.29% to 10.31%. Market values of EIB shares held by the Group and the Parent Company amounted to P278,138,859 and P69,493,875, respectively, as of December 31, 2008. As of March 24, 2009, the market values of EIB shares held by the Group and the Parent Company have increased to P414,777,866 and P94,974,962, respectively. However on May 15, 2009, EIB shares were suspended for trading by the Philippine Stock Exchange. As of April 15, 2011, the suspension on EIB's shares has not been lifted yet, thus no quoted market values were available for the investment in EIB from that date onwards.

As of December 31, 2010, 2010 audited financial information of EIB is not yet available.

Selected audited financial information on EIB for 2009 follows (in thousands):

Assets	P 30,690,050
Liabilities	28,461,519
Equity	2,228,531
Net loss	(794,591)

However, in the financial information reported in the 2009 audited financial statements of EIB, the Bank still has to recognize losses pertaining to write off of deferred charges from sale of non-performing assets, deferred tax asset and goodwill. The immediate recognition of such losses will result to a negative capital for EIB.

11. OTHER ASSETS

This account consists of the following:

	Note	Group		Parent Company	
		2010	2009	2010	2009
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable					
withholding tax		2,536,091	2,019,915	-	-
Security deposits	13.01	384,687	239,459	-	-
Miscellaneous		<u>1,036,282</u>	<u>937,755</u>	<u>950,647</u>	<u>834,007</u>
		<u>P 8,771,916</u>	<u>P 8,011,985</u>	<u>P 950,647</u>	<u>P 834,007</u>

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of December 31, 2010 and 2009, no impairment loss was recognized by the Company.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Group		Parent Company	
		2010	2009	2010	2009
Accounts payable		P 1,595,620	P 1,566,568	P -	P -
Retirement benefit obligation	14.03	2,485,851	1,950,369	403,309	220,420
Income tax payable	15	15,320	-	15,320	-
Other payables		<u>1,016,763</u>	<u>1,283,801</u>	<u>562,801</u>	<u>496,886</u>
		<u>P 5,113,554</u>	<u>P 4,800,738</u>	<u>P 981,430</u>	<u>P 717,306</u>

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Group transacts with entities that are considered related parties under PAS 24, *Related Party Disclosures*. The following transactions were carried out with related parties:

13.01 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party, for a period of one year, renewable upon mutual agreement of the parties.

Total annual rental charged to operations amounted to P1,342,586 in 2010, P1,144,734 in 2009, and P1,152,119 in 2008 in the consolidated financial statements, and P312,000 in 2010, 2009 and 2008 in the Parent Company financial statements. These are included under Occupancy expenses in the statements of comprehensive income. Security deposits and advance rentals paid totaling P384,687 and P239,459 as of December 31, 2010 and 2009 respectively, are included under Other Assets in the statements of financial position.

13.02 Due from Related Parties

This account consists of the following:

	Group		Parent Company	
	2010	2009	2010	2009
Lippo Securities, Inc. (LSI)	P 686,569	P 691,998	P -	P -
MAIC	-	-	49,733,878	53,274,867
	<u>P 686,569</u>	<u>P 691,998</u>	<u>P49,733,878</u>	<u>P 53,274,867</u>

On December 16, 2008, MAIC received instruction from Lippo China Resources (LCR), the ultimate parent of the Group, that P74,425,175 of MAIC's liability to LCR will be transferred to the Parent Company. As of December 31, 2010, P49,733,878 of the total amount is still outstanding and is presented as Due from Related Parties.

13.03 Due to Related Parties

This account consists of the following:

	Group		Parent Company	
	2010	2009	2010	2009
LCR	P 176,004,425	P 176,104,942	P 141,315,408	P 141,315,408
Solid Payback Holdings, Inc.	3,552,525	3,552,525	3,552,525	3,552,525
LSI	2,932,125	3,341,297	2,932,125	3,341,297
CPIL	875,202	2,647,145	857,202	1,854,894
	<u>P 183,364,277</u>	<u>P 185,645,909</u>	<u>P 148,657,260</u>	<u>P 150,064,124</u>

Due to related parties pertains to non-interest bearing advances from various associates for working capital purposes.

13.04 Others

The Group has bank deposits with EIB amounting to P214,298 and P152,007 as of December 31, 2010 and 2009, respectively (nil for Parent Company both in 2010 and 2009).

14. EMPLOYEE BENEFITS

14.01 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits are presented below.

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Salaries and wages	P 5,556,283	P 5,380,520	P 5,774,688	P 2,200,048	P 1,961,700	P 1,958,097
Retirement benefits expense	535,481	742,455	555,151	182,889	165,013	136,293
Social security costs	102,064	111,672	118,650	26,160	35,376	38,784
Short-term medical benefits	98,927	105,148	111,432	9,000	10,000	10,500
Other benefits	163,639	166,073	176,904	54,457	39,339	30,421
	<u>P 6,456,394</u>	<u>P 6,505,868</u>	<u>P 6,736,825</u>	<u>P 2,472,554</u>	<u>P 2,211,428</u>	<u>P 2,174,095</u>

14.02 Key Management and Personnel Compensation

The compensation and benefits provided to key management personnel amounted to P4,628,900, P4,283,167 and P4,391,400 in 2010, 2009 and 2008, respectively, for the Group and P2,057,500, P1,821,400 and P1,820,000, respectively, for the Parent Company in 2010, 2009 and 2008, respectively. These are presented as part of the salaries and employee benefits in the statements of comprehensive income.

14.03 Employee Retirement Benefit Obligation

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

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Present value of obligation	P 4,369,533	P 3,507,650	P 1,241,484	P 850,983
Fair value of plan assets	(854,508)	(779,919)	(248,590)	(228,905)
Unfunded liability	3,515,025	2,727,731	992,894	622,078
Unrecognized actuarial gain	(1,029,174)	(777,361)	(589,585)	(401,658)
	<u>P 2,485,851</u>	<u>P 1,950,370</u>	<u>P 403,309</u>	<u>P 220,420</u>

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of year	P 3,507,650	P 2,824,097	P 850,983	P 721,487
Current service cost	333,929	87,749	81,014	68,331
Interest cost	203,754	638,372	85,803	70,436
Actuarial (gains)/loss	324,200	(42,568)	223,684	(9,271)
Balance at end of year	<u>P 4,369,533</u>	<u>P 3,507,650</u>	<u>P 1,241,484</u>	<u>P 850,983</u>

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of year	P 779,919	P 727,863	P 228,905	P 212,336
Expected return on plan assets	31,197	29,114	9,156	8,493
Actuarial gains	43,392	22,942	10,529	8,076
Balance at end of year	<u>P 854,508</u>	<u>P 779,919</u>	<u>P 248,590</u>	<u>P 228,905</u>

As of December 31, 2010 and 2009, the plan assets consist of the following:

	Group		Parent Company	
	2010	2009	2010	2009
Investment in government securities	P 752,631	P 730,806	P 213,605	P 210,063
Deposit in banks	95,261	42,400	32,356	16,181
Interest receivables	7,673	7,683	2,937	2,689
Accrued trust fees payable	(1,057)	(970)	(308)	(28)
Balance at end of year	<u>P 854,508</u>	<u>P 779,919</u>	<u>P 248,590</u>	<u>P 228,905</u>

Actual returns on plan assets were P74,589 and P19,685 in 2010 for the Group and the Parent Company, respectively.

The amounts of retirement benefits expense recognized in profit or loss follow:

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Current service cost	P 203,754	P 87,749	P 186,220	P 85,803	P 68,331	P 24,035
Interest cost	333,929	638,372	264,119	81,014	70,436	64,611
Expected return on plan assets	(31,197)	(29,114)	-	(9,156)	(8,493)	-
Net actuarial loss recognized during the plan year	<u>28,995</u>	<u>45,448</u>	<u>104,812</u>	<u>25,228</u>	<u>34,739</u>	<u>47,647</u>
	<u>P 535,481</u>	<u>P 742,455</u>	<u>P 555,151</u>	<u>P 182,889</u>	<u>P 165,013</u>	<u>P 136,293</u>

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

	Group			Parent Company		
	2010	2009	2008	2009	2008	2008
Balance at beginning of year	P 1,950,370	P 1,207,915	P 1,378,802	P 220,420	P 55,407	P 130,919
Expense recognized	535,481	742,455	555,151	182,889	165,013	136,293
Contributions paid	-	-	(726,038)	-	(-)	(211,805)
	<u>P 2,485,851</u>	<u>P 1,950,370</u>	<u>P 1,207,915</u>	<u>P 403,309</u>	<u>P 220,420</u>	<u>P 55,407</u>

The Group and the Parent Company expects to pay P381,988 in 2011.

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

	2010	2009	2008
Discount rates	8.09%	9.52%	9.76%
Expected rate of salary increases	5.00%	5.00%	5.00%

15. TAXES

15.01 Current and Deferred Taxes

Tax expense for the years ended December 31 follows:

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Final tax at 20%	P 223,560	P 295,359	P 480,579	P 612	P 375	P -
Minimum corporate income tax (MCIT) at 2%	15,320	103,163	-	15,320	-	-
	<u>P 238,880</u>	<u>P 398,522</u>	<u>P 480,579</u>	<u>P 15,932</u>	<u>P 375</u>	<u>P -</u>

The reconciliation of tax on pretax loss for 2010, 2009 and 2008 computed at the applicable statutory tax rates to tax expense attributable to operations follows:

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Tax on pretax loss at 30% in 2010 and 2009 (35% in 2008)	(P 107,308,635)	(P 2,053,264)	(P 3,412,190)	(P 39,998,593)	(P 1,054,221)	(P 2,674,843)
Income subject to final tax	(153,819)	(222,129)	(386,003)	(306)	(187)	(1,012)
Tax effects of:						
Unrecognized temporary differences	107,586,304	2,154,740	3,664,116	40,484,998	1,113,620	2,722,144
Non-deductible expenses	774,710	799,750	957,228	189,513	211,163	268,711
MCIT	15,320	-	-	15,320	-	-
Non-taxable income	(675,000)	(280,575)	(342,572)	(675,000)	(270,000)	(315,000)
Tax expense	<u>P 238,880</u>	<u>P 398,522</u>	<u>P 480,579</u>	<u>P 15,932</u>	<u>P 375</u>	<u>P -</u>

The net deferred tax assets relating to temporary differences that were not recognized by the Group and the Parent Company as of December 31, 2010 and 2009 are summarized below.

	Group			
	2010		2009	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 405,555,862	P 121,666,759	P 55,710,614	P 16,713,184
Net of operating loss carryover (NOLCO)	31,731,660	9,519,498	38,937,014	11,681,105
Accrued retirement	2,485,851	745,755	1,930,951	579,285
Unrealized foreign currency losses	804,766	241,430	382,691	114,807
Excess MCIT	118,484	118,484	103,163	103,163
	<u>P 440,696,623</u>	<u>P 132,291,926</u>	<u>P 97,064,433</u>	<u>P 29,191,544</u>
	Parent Company			
	2010		2009	
	Amount	Tax Effect	Amount	Tax Effect
Allowance for impairment	P 172,023,108	P 51,606,932	P 40,313,000	P 12,093,900
NOLCO	14,458,671	4,337,601	19,134,288	5,740,101
Accrued retirement	403,309	120,993	220,420	66,126
MCIT	15,320	15,320	-	-
Unrealized foreign currency losses	3,040	912	1,380	414
	<u>P 186,904,067</u>	<u>P 56,081,944</u>	<u>P 59,669,088</u>	<u>P 17,900,541</u>

In 2009, the Group utilized a portion of its NOLCO incurred in 2006 amounting to P486,534 and applied it against taxable income. As of December 31, 2010, the Group's expired NOLCO totalled P15,053,176 which included that of the Parent Company of P7,730,333.

The breakdown of the Group and the Parent Company's NOLCO as of December 31, 2010, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

Year	Group			Parent Company		
	Original Amount	Tax Effect		Original Amount	Tax Effect	Valid Until
2010	P 7,847,822	P 2,354,347		P 3,055,335	P 916,601	2013
2009	3,538,267	1,061,480		3,538,267	1,061,480	2012
2008	<u>20,345,571</u>	<u>6,103,671</u>		<u>7,865,069</u>	<u>2,359,521</u>	2011
	<u>P 31,731,660</u>	<u>P 9,519,498</u>		<u>P 14,458,671</u>	<u>P 4,337,601</u>	

The Parent Company is subject to minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations. In 2010, the Parent Company is subject to MCIT on its gross income amounting to P15,320. No MCIT was recognized in 2009.

15.02 Optional Standard Deduction

Effective July 2008, RA No. 9504 was passed giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. In 2010 and 2009, the Parent Company opted to continue claiming itemized deductions.

15.03 Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense was reduced from 42% to 33% of interest income subjected to final tax.

16. LOSS PER SHARE

Loss per share for the years ended December 31, 2010, 2009 and 2008 is computed as follows:

	Group			Parent Company		
	2010	2009	2008	2010	2009	2008
Net loss	P 226,284,153	P 6,844,586	P 10,229,695	P 133,344,574	P 3,514,444	P 7,642,409
Divided by the weighted average number of outstanding shares	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>	<u>700,000,000</u>
Loss per share	<u>P 0.323</u>	<u>P 0.009</u>	<u>P 0.016</u>	<u>P 0.190</u>	<u>P 0.005</u>	<u>P 0.011</u>

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements. As of December 31, 2010, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

18. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued the Revenue Regulations (RR) 15- 2010, which requires certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements of the Parent Company. RR 15-2010 took effect beginning December 2010. This supplemental information, which is not a required part of the basic financial statements prepared in accordance with PFRS, is presented below.

18.01 Output VAT

For the year ended December 31, 2010, the Parent Company reported and declared Output VAT amounting to P308,121 with corresponding tax base of P2,567,675.

Pursuant to section 106A, VAT on Sale of Goods or Properties, and Section 109, VAT Exempt Transactions, of the National Internal Revenue Code of 1997, the Company has no Zero-rated and VAT exempt sales/receipt.

18.02 Input VAT

The movement of VAT Input Tax for the year ended December 31, 2010 is summarized below.

Balance at beginning of year	P	834,007
Current year's domestic purchases/payments		
Services lodged under cost of services		<u>116,640</u>
Balance at end of year	<u>P</u>	<u>950,647</u>

The balance of VAT Input Taxes is presented as part of Miscellaneous Asset under Other Assets (see Note 11).

18.03 Landed Cost, Customs Duties and Tariff Fees

The Company did not have any customs duties and tariff fees paid in 2010 since it did not have any importation activities during the year.

18.04 Excise Tax

The Company did not have excise tax in 2010 since it did not have any transactions which are subject to excise tax.

18.05 Documentary Stamp Tax

The Company did not have documentary stamp tax (DST) paid or accrued in 2010 since it did not have any transactions which are subject to DST.

18.06 Other Taxes and Licenses

The details of Taxes and Licenses account are broken down as follows:

Licenses and permit fees	P	15,685
Local taxes (including real estate taxes)		5,500
Miscellaneous		<u>500</u>
	P	<u>21,685</u>

18.07 Withholding Taxes

The total withholding taxes for the year ended December 31, 2010 are shown below.

Compensation and benefits	P	531,036
Expanded		87,450
Final		<u>11,250</u>
	P	<u>629,736</u>

18.08 Deficiency Tax Assessments and Tax Cases

The Company does not have any deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Dionisio E. Carpio, Jr.

(Contact Person)

811-0465

(Company Telephone Number)

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Month Day
2011

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(Form Type)

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Month Day
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

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

1. For the quarterly period ended **30 September 2011**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
6. (SEC Use Only)
Industry Classification Code
7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code
8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**
9. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of each class</u>	<u>Number of shares of common stock</u> <u>outstanding and amount debt</u>
<u>outstanding</u> Common	700,000,000 shares

10. Are any or all of these securities listed on the Philippine Stock Exchange. Yes [/] No []

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

Yes [/] No []

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

Yes [/]

No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

Item 2. Management's Discussion and Analysis or Results of Operation.

2011- Third Quarter Financial Highlights

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

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

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

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

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

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

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

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

2010- Third Quarter Financial Highlights

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

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

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

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

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

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

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

2009-Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2009 decreased by 27% compared to the previous year's third quarter figure. Consolidated revenues for this quarter consisted mainly of fees and other commissions (46%), interest income from short-term placements (19%), and other income (34%).

The decline in the consolidated revenues was mainly due to the smaller unrealized foreign exchange gain of only P51,864 from the revaluation of US and Hong Kong Dollar placements booked during the quarter versus the P2.3 million recorded during the comparable quarter of last year. This was because the US and Hong Kong dollar exchange rates for this quarter appreciated vis-à-vis the peso by 0.23% only relative to the December 31, 2008 rates. On the other hand, the said foreign currencies gained against the peso by 13% as of September 30, 2008 compared to the December 31, 2007 exchange rates.

Consolidated expenses, on the other hand, decreased by approximately 25% relative to the previous year's second quarter. The expenses for this quarter were comprised of salaries and wages (40%), representation (19%), professional fees (12%), occupancy (8%), Utilities (4%), and other expenses (17%).

The decrease in the consolidated expenses was mainly due to the non-incurrence of interest expense during this quarter as there was no outstanding bank loan anymore. In the third quarter of last year, interest expenses accounted for 21% of the total expenses.

With respect to the balance sheet as at the end of the quarter under review, there was no significant change in the total assets as compared to the previous year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which was accrued as at the end of December 31, 2008. On the other hand, the transactions from related parties, net of the due to and due from, increased due to the advances obtained from the affiliates for working capital requirements. On the liabilities side, accounts payable and accrued expenses decreased by 22% due to the payment of liabilities accrued as of December 31, 2008.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at September 30, 2009 consisted of P50.6 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:



DIONISIO E. CARPIO, JR.
President



MA. LOURDES B. BATHAN
Principal Accounting Officer

Third Quarter Top Five (5) Performance Indicators
September 30, 2011, 2010 and 2009

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2011	2010	2009	2011	2010	2009
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	10.72%	-25.90%	-27.44%	-8.08%	-39.75%	-17.92%
2. Net Loss Growth	$\frac{\text{Net Loss Y1-Y0}}{\text{Net Loss Y0}}$	-97.18%	3249.26%	-24.47%	-98.23%	13029.06%	52.89%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Ave. Stockholders' Equity}}$	-10.67%	-94.14%	-2.86%	-227.54%	-215.06%	-052%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.17x	0.22x	0.28x	10.13x	7.21x	10.23x
5. Debt-to-Equity- Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	5.27x	4.48x	0.70x	0.95x	0.94x	.030x

Note:

Y1= Current year

Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
September 30, 2011, 2010 and 2009

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

		2011	(Audited) 2010
<u>ASSETS</u>			
Cash and cash equivalents (Note 7)	P	31,209,080	P 39,053,962
Available-for-Sale Investments (Note 8)		31,792,321	31,792,321
Loans and receivables - net (Note 9)		29,312	235,454
Due from related parties (Note 13)		339,431	686,569
Equity Investment- net (Note 10)		148,746,260	148,746,260
Other Assets (Note 11)		<u>9,010,652</u>	<u>8,771,916</u>
TOTAL ASSETS	P	<u>221,127,056</u>	P <u>229,286,482</u>
<u>LIABILITIES AND EQUITY</u>			
LIABILITIES			
Accounts Payable and Accrued Expenses (Note 12)	P	3,676,915	P 5,113,554
Due to related parties (Note 13)		<u>182,166,163</u>	<u>183,364,277</u>
		<u>185,843,078</u>	<u>188,477,831</u>
EQUITY			
Equity attributable to equityholders of the parent			
Capital Stock - P1 par value			
Authorized, Issued & outstanding- 700,000,000 shares		700,000,000	700,000,000
Additional paid-in capital		25,498,912	25,498,912
Fair value losses in available-for-sale financial assets		(376,801)	(376,801)
Deficit		<u>(724,523,722)</u>	<u>(720,393,526)</u>
Total equity attributable to equityholders of the parent		598,389	4,728,585
Minority interest		<u>34,685,589</u>	<u>36,080,066</u>
		<u>35,283,978</u>	<u>40,808,651</u>
TOTAL LIABILITIES AND EQUITY	P	<u>221,127,056</u>	P <u>229,286,482</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 and 2010

	JULY TO SEPTEMBER		JANUARY TO SEPTEMBER	
	2011	2010	2011	2010
REVENUES	P 1,039,393	P 1,187,587	P 4,626,718	P 4,178,861
EXPENSES	<u>3,185,651</u>	<u>4,323,589</u>	<u>10,151,391</u>	<u>229,120,331</u>
LOSS BEFORE MINORITY				
SHARE IN NET INCOME	(2,146,258)	(3,136,002)	(5,524,673)	(224,941,470)
MINORITY SHARE IN NET INCOME	<u>(428,691)</u>	<u>(453,871)</u>	<u>(1,394,477)</u>	<u>(78,680,777)</u>
LOSS BEFORE FINAL TAX	(1,717,567)	(2,682,131)	(4,130,196)	(146,260,693)
LESS: PROVISION FOR TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(1,717,567)	(2,682,131)	(4,130,196)	(146,260,693)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER	<u>(722,806,155)</u>	<u>(717,339,716)</u>	<u>(720,393,526)</u>	<u>(573,761,154)</u>
DEFICIT AT END OF QUARTER	P <u><u>(724,523,722)</u></u>	P <u><u>(720,021,847)</u></u>	P <u><u>(724,523,722)</u></u>	P <u><u>(720,021,847)</u></u>
LOSS PER SHARE	P <u><u>(0.0025)</u></u>	P <u><u>(0.0038)</u></u>	P <u><u>(0.0059)</u></u>	P <u><u>(0.2089)</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital Stock- P1par value			
Authorized, issued and outstanding- 700,000,000	P <u>700,000,000</u>	P <u>700,000,000</u>	P <u>700,000,000</u>
Additional Paid-In Capital	<u>25,498,912</u>	<u>25,498,912</u>	<u>25,498,912</u>
Fair value losses in available-for-sale financial assets	<u>(376,801)</u>	<u>(408,353)</u>	<u>(597,152)</u>
Deficit			
Balance, beginning of year	(720,393,526)	(573,761,154)	(568,097,307)
Net loss	<u>(4,130,196)</u>	<u>(146,260,693)</u>	<u>(4,366,961)</u>
Balance, end of quarter	<u>(724,523,722)</u>	<u>(720,021,847)</u>	<u>(572,464,268)</u>
Total equity attributable to equityholders of the parent	598,389	5,068,712	152,437,492
Minority interest	<u>34,685,589</u>	<u>37,033,739</u>	<u>116,189,794</u>
Total Equity	P <u><u>35,283,978</u></u>	P <u><u>42,102,451</u></u>	P <u><u>268,627,286</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011, 2010, AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss before tax and minority interest	P (5,524,673)	P (224,941,470)	P (4,962,210)
Adjustments for:			
Depreciation	1,509	13,585	12,075
Interest income	(524,641)	(765,506)	(1,074,416)
Interest expense	3,129	5,150	6,379
Unrealized foreign exchange loss (gain)	129,107	872,111	(52,050)
Impairment loss on investment	-	218,135,140	-
Decrease(increase) in:			
Receivables	206,142	291,033	588,882
Other assets	(240,245)	(612,798)	(500,565)
Increase (Decrease) in accounts payable and accrued expenses	<u>(1,436,639)</u>	<u>(708,180)</u>	<u>(1,211,840)</u>
Cash generated from operations	<u>(7,386,311)</u>	<u>(7,710,935)</u>	<u>(7,193,745)</u>
Cash paid for income taxes	-	-	-
Net Cash Used in Operating Activities	<u>(7,386,311)</u>	<u>(7,710,935)</u>	<u>(7,193,745)</u>
CASH FLOWS FROM INVESTING ACITIVITIES			
Interest received	524,641	765,506	1,074,416
Net decrease (increase) in available-for-sale securities	<u>-</u>	<u>-</u>	<u>398,002</u>
Net Cash Provided by Investing Activites	<u>524,641</u>	<u>765,506</u>	<u>1,472,418</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	(3,129)	(5,150)	(6,379)
Net increase (decrease) of due from/to related parties	<u>(850,976)</u>	<u>(1,197,133)</u>	<u>527,479</u>
Net Cash Provided by (Used in) Financing Activities	<u>(854,105)</u>	<u>(1,202,283)</u>	<u>521,100</u>
EFFECTS OF FOREIGN EXCHANGE REVALUATION			
OF CASH AND CASH EQUIVALENTS	<u>(129,107)</u>	<u>(872,111)</u>	<u>52,050</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(7,844,882)</u>	<u>(9,019,823)</u>	<u>(5,148,177)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>39,053,962</u>	<u>49,792,328</u>	<u>55,788,802</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER	P <u><u>31,209,080</u></u>	P <u><u>40,772,505</u></u>	P <u><u>50,640,625</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Nature of Business

Medco Holdings, Inc. (the Parent Company) is registered with the Securities and Exchange Commission (SEC) as a holding company. The Parent Company's shares of stocks are listed at the Philippine Stock Exchange (PSE). The registered office of the Parent Company and subsidiaries (the Group) is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

The Parent Company is 46.04% owned by Citivest Asia Limited, which is a wholly owned subsidiary of Lippo China Resources Limited (LCR or the Ultimate Parent).

The Group holds a 10.31% interest in Export and Industry Bank, Inc. (EIB) while the Parent Company holds a 64.54% interest in Medco Asia Investment Corporation (MAIC) and a 2.45% interest in EIB. MAIC was registered with the SEC on April 7, 1995 primarily to conduct business as an investment house.

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations.

1.2 Status of Operations

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred recurring net losses of P4,130,196, P146,260,693 and P4,366,961 for the third quarter ended September 30, 2011, 2010 and 2009, respectively. The Group reported deficits of P724,523,722 and P720,393,526 as at September 30, 2011 and December 31, 2010, respectively. Although the Group has incurred a deficit as of September 30, 2011 and December 31, 2010, management believes that the Group will be able to achieve positive business operations in the future. Consequently, the accompanying financial statements have been prepared assuming that the Group will continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Group 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. These financial statements have been prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets. 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 Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively or 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 peso, the Parent Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

2.02 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2010 that are Relevant to the Group

In 2010, the Group adopted the following new PFRS, revisions, amendments and annual improvements that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2010.

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are relevant information about these new and amended standards.

- (i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there were no transactions with non-controlling interests during the year.
- (ii) PFRS 3 (Revised 2008), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Company did not have any business acquisition during the year, hence, the adoption of the revised standard has no effect on the 2010 financial statements.

- (iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements since the Group did not distribute non-cash assets to stockholders during the year.
- (iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the 2009 Improvements to PFRS. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements but which did not also have any material impact on its financial statements:
- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
 - PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.
 - PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.
 - PAS 18 (Amendment), *Revenue*. The amendment provides guidance in determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

(b) *Effective in 2010 that are not Relevant to the Group*

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Group's financial statements:

PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Company Cash-settled Share-based Payment Transactions
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendments
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements.

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor 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.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Company usually provides adequate information in its financial statements in compliance with disclosure requirements.
- (iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
 - o Phase 1: Classification and Measurement
 - o Phase 2: Impairment Methodology
 - o Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

- (v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to Philippine Financial Reporting Standards* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PAS 1 (effective from July 1, 2010), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

2.03 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets

transferred, the liabilities incurred and the equity interests issued by the Parent Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses that are also recognized in equity.

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

Upon adoption in 2010 of PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*, the Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence. It has applied the new policy prospectively as required by the standards beginning January 1, 2010. As a result, no adjustments were necessary to any of the amounts previously recognized and reported in the financial statements.

Before the adoption of the revised PAS 27, transactions with non-controlling interests were treated as transactions with parties external to the group. As such, disposals resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Also previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

Non-controlling interests in 2010 and 2009 represent the interests not held by the Group in MAIC.

2.04 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, 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. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

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

(a) Loans and Receivables

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. 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 cash flows.

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

(b) Available-for-sale Financial Assets

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

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

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

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

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

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

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

2.05 Financial Liabilities

Financial liabilities include accounts payable and accrued expenses and due to related parties which are measured at amortized cost using the effective interest method.

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

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

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

2.06 Provisions and Commitments

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

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

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

2.07 Equity

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

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

Net unrealized fair value gains (losses) on available-for-sale financial assets comprise gains and losses due to the revaluation of available-for-sale financial assets.

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

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

2.08 Related Party Transactions

Related party transactions are transfer of resources, services or obligations between Medco Holdings, Inc. 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 or more intermediaries, control or are controlled by, or under common control with the Medco Holdings Inc. and subsidiaries; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of Medco Holdings Inc. and subsidiaries that gives them significant influence over Medco Holdings Inc. and subsidiaries and close members of the family of any such individual.

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

2.09 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. Financial information on business segments is presented in Note 4.02.

2.10 Revenue and Expense Recognition

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

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

- (a) *Commission and fees* – Revenue from professional services provided to subsidiaries of EIB is recognized as the service has been completed.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (c) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

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

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

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

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

2.14 Employee Benefits

(a) Post-employment benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution 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 Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

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

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

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period.

2.15 Earnings Per Share (EPS)

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

2.16 Income Taxes

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect 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.

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Available-for-sale Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

As of September 30, 2011 and December 31, 2010, the Group did not recognize any impairment losses in available-for-sale financial assets.

(b) Operating Lease

The Group has entered in a lease agreement as lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense for the third quarter charged to the Group's operations amounted P1,148,538, P959,740 and P808,702 for the third quarter ended September 30, 2011, 2010 and 2009, respectively. Rent expense is presented as part of Occupancy in the statements of comprehensive income (see Note 13).

(c) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.06 and relevant disclosures are presented in Note 17.

3.02 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 Loans and Receivables*

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

No provision for impairment losses was recognized by the Group in 2011, 2010, and 2009.

(b) *Valuation of Financial Assets Other than Loans and Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, 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 base of the instrument. The amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

(c) *Realizable Amount of Deferred Tax Assets*

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

The Group did not recognize any deferred tax asset as of September 30, 2011 and December 31, 2010.

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No additional impairment losses were recognized by the Group as of September 30, 2011 and December 31, 2010.

(e) *Retirement Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated retirement benefit obligation of the Group amounted to P1,748,983 as at September 30, 2011 and P2,485,851 as at December 31, 2010.

4. SEGMENT REPORTING

4.01 Business Segments

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

- (a) Investment banking – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.
- (b) Others – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

4.02 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the quarters ended September 30, 2011, 2010 and 2009 follows:

	2011		
	Investment Banking	Others	Total
Income:			
Commission and fees	P 2,580,882	P	P 2,580,882
Interest income	522,072	2,569	524,641
Other income	<u>19,694</u>	<u>1,501,501</u>	<u>1,521,195</u>
Gross revenues	3,122,648	1,504,070	4,626,718
Expenses	<u>7,055,628</u>	<u>3,095,763</u>	<u>10,151,391</u>
Loss before income tax	(3,932,980)	(1,591,693)	(5,524,673)
Income tax expense			
Operating loss	<u>(P 3,932,980)</u>	<u>(P 1,591,693)</u>	<u>(5,524,673)</u>
Non-controlling interest in net losses of subsidiary			<u>1,394,477</u>
Net loss			<u>(P 4,130,196)</u>
Segment assets	<u>P 183,422,842</u>	<u>P 32,889,358</u>	P 216,312,200
Goodwill			<u>4,814,856</u>
Total assets			<u>P 221,127,056</u>
Segment liabilities	<u>P 45,783,511</u>	<u>P 140,059,567</u>	<u>P 185,843,078</u>

	2010		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
Income:			
Commission and fees	P2,580,882	-	P2,580,882
Interest income	763,971	1,535	765,506
Other income	<u>52,315</u>	<u>780,158</u>	<u>832,473</u>
Gross revenues	3,397,168	781,693	4,178,861
Expenses	<u>226,218,124</u>	<u>2,902,207</u>	<u>229,120,331</u>
Operating loss	(P 222,820,956)	(P 2,120,514)	(224,941,470)
Minority interest in net losses of subsidiary			<u>(78,680,777)</u>
Net loss			(P 146,260,693)
Segment assets	<u>P 192,516,327</u>	<u>P 33,311,756</u>	P 225,828,083
Goodwill			<u>4,814,856</u>
Total assets			<u>P 230,642,939</u>
Segment liabilities	<u>P 46,175,137</u>	<u>P 142,365,351</u>	<u>P 188,540,488</u>

	2009		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
Income:			
Dividend income	P 23,773	P -	P 23,773
Commission and fees	1,720,588	-	1,720,588
Interest income	732,890	750	733,640
Foreign exchange gain	326,702	-	326,702
Other income	<u>763,559</u>	<u>-</u>	<u>763,559</u>
Gross revenues	3,567,512	750	3,568,262
Expenses	<u>5,084,901</u>	<u>2,106,081</u>	<u>7,190,982</u>
Operating loss	(P 1,517,389)	(P 2,105,331)	(3,622,720)
Minority interest in net losses of subsidiary			<u>(538,005)</u>
Net loss			(P 3,084,715)
Segment assets	<u>P 426,810,974</u>	<u>P 26,936,269</u>	P 453,747,243
Goodwill			<u>4,814,856</u>
Total assets			<u>P 458,562,099</u>
Segment liabilities	<u>P 45,078,631</u>	<u>P 143,510,197</u>	<u>P 188,588,828</u>

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.01 Foreign Currency Risk

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

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

5.02 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At September 30, 2011 and December 31, 2010, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.03 Liquidity Risk

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

As at September 30, 2011 and December 31, 2010, the Group's financial assets and liabilities with their corresponding contractual maturities are shown below.

	Group					
	2011			2010		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 31,209,080	P -	P 31,209,080	P 39,053,962	P -	P 39,053,962
Available-for sale financial assets		31,792,321	31,792,321	-	31,792,231	31,792,321
Loans and receivables (at gross)	27,312	40,315,000	40,342,312	89,225	40,459,229	40,548,454
	<u>P 31,236,392</u>	<u>P 72,107,321</u>	<u>P 103,343,713</u>	<u>P 39,143,187</u>	<u>P 72,251,550</u>	<u>P 111,394,737</u>
Financial Liabilities:						
Due to related parties	P 182,166,163	P -	P 182,166,163	P 183,364,277	P -	P 183,364,277
Accounts payable and accrued expenses	526,034	3,150,881	3,676,915	141,574	2,470,809	2,612,383
	<u>P 182,692,197</u>	<u>P 3,150,881</u>	<u>P 185,843,078</u>	<u>P 183,505,851</u>	<u>P 2,470,809</u>	<u>P 185,976,660</u>

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

5.04 Credit Risk

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

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

As part of Group policy, bank deposits and short-term placements are only maintained with reputable financial institutions. Cash on hand amounting to P8,000 in 2011 and 2010 is not included in determining credit risk. Cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum insurance coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) No. 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio of the Group and the Parent Company as of September 30, 2011 and December 31, 2010 are shown below.

	Group		Parent Company	
	2011	2010	2011	2010
Total liabilities	P 185,843,078	P 188,477,831	P 147,962,255	P 149,656,690
Total equity	35,283,977	40,808,651	927,805	2,519,500
Debt-to-equity ratio	<u>5.27: 1</u>	<u>4.62 : 1</u>	<u>159.48:1</u>	<u>59.40 : 1</u>

The Group has honored its covenant obligations, including maintaining the required debt-to-equity ratio for both years.

As of September 30, 2011 and December 31, 2010, the Parent Company has a total authorized capital stock of 700,000,000 common shares at P1 par value per share. As of those dates, all of the shares were issued and outstanding.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Group		Parent Company	
	2011	2010	2011	2010
Short-term placements	P 15,645,993	P 21,470,487	P -	P -
Cash in banks	15,555,087	17,575,475	865,305	1,867,236
Petty cash fund	<u>8,000</u>	<u>8,000</u>	<u>-</u>	<u>-</u>
	<u>P 31,209,080</u>	<u>P 39,053,962</u>	<u>P 865,305</u>	<u>P 1,867,236</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 90 days and earn annual effective interest ranging from 1% to 4% in 2011 and 1.5% to 4.00% in 2010.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cost				
Quoted	P 1,083,578	P 1,083,578	P -	P -
Not quoted	<u>76,292,533</u>	<u>76,292,533</u>	<u>76,268,750</u>	<u>76,268,750</u>
	77,376,111	77,376,111	76,268,750	76,268,750
Allowance for impairment	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>
	32,376,111	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	<u>(583,790)</u>	<u>(583,790)</u>	<u>-</u>	<u>-</u>
Market value	<u>P 31,792,321</u>	<u>P 31,792,321</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

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

The fair value of quoted available-for-sale financial assets have been determined directly by reference to published prices in active markets.

9. LOANS AND RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Accounts receivable	P 40,342,312	P 40,459,229	P 40,342,312	P 40,382,858
Interest receivable	<u>-</u>	<u>89,225</u>	<u>-</u>	<u>-</u>
	40,342,312	40,548,454	40,342,312	40,382,858
Allowance for impairment	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>
	<u>P 29,312</u>	<u>P 235,454</u>	<u>P 29,312</u>	<u>P 69,858</u>

The net carrying amounts of these financial assets are reasonable approximation of their fair values.

10. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
At acquisition cost					
Associates:					
EIB	10.31%	P 860,659,849	P 860,659,849		
	2.45%			P 478,380,834	P 478,380,834
Subsidiary:					
MAIC	64.54%	<u>-</u>	<u>-</u>	<u>199,995,929</u>	<u>199,995,929</u>
		860,659,849	860,659,849	678,376,763	678,376,763
Allowance for impairment		<u>(711,913,589)</u>	<u>(711,913,589)</u>	<u>(610,090,942)</u>	<u>(610,090,942)</u>
		<u>P 148,746,260</u>	<u>P 148,746,260</u>	<u>P 68,285,821</u>	<u>P 68,285,821</u>

The net carrying amount of the Parent Company's investments at the end of September 30, 2011 and December 31, 2010 pertain to MAIC.

On May 15, 2009, EIB shares were suspended for trading by the Philippine Stock Exchange. The suspension on EIB's shares has not been lifted yet, thus no quoted market values were available for the investment in EIB from that date onwards.

11. OTHER ASSETS

This account consists of the following:

	<u>Note</u>	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable					
withholding tax		2,923,224		-	-
-					
Security deposits	13.01	384,687	384,687	-	-
Miscellaneous		<u>887,885</u>	<u>1,036,282</u>	<u>725,990</u>	<u>950,647</u>
		<u>P 9,010,652</u>	<u>P 8,771,916</u>	<u>P 725,990</u>	<u>P 950,647</u>

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of September 30, 2011 and December 31, 2010, no impairment loss was recognized by the Company.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Group		Parent Company	
		2011	2010	2011	2010
Accounts payable		P 1,521,803	P 1,595,620	P -	P -
Retirement benefit obligation	14	1,748,983	2,485,851	161,240	403,309
Income tax payable	15	-	15,320	-	15,320
Other payables		<u>406,129</u>	<u>1,016,763</u>	<u>58,081</u>	<u>562,801</u>
		<u>P 3,676,915</u>	<u>P 5,113,554</u>	<u>P 219,321</u>	<u>P 981,430</u>

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Group transacts with entities that are considered related parties under PAS 24, *Related Party Disclosures*. The following transactions were carried out with related parties:

13.01 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party, for a period of one year, renewable upon mutual agreement of the parties.

Total rental charged to operations for the third quarter amounted to P1,148,538, P959,740, and P808,702 in 2011, 2010 and 2009, respectively, in the consolidated financial statements. These are included under Occupancy expenses in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 as of September 30, 2011 and December 31, 2010, are included under Other Assets in the statements of financial position.

13.02 Due from Related Parties

This account consists of the following:

	Group		Parent Company	
	2011	2010	2011	2010
Lippo Securities, Inc. (LSI)	P 339,431	P 686,569	P -	P -
MAIC	<u>-</u>	<u>-</u>	<u>48,684,861</u>	<u>49,733,878</u>
	<u>P 339,431</u>	<u>P 686,569</u>	<u>P 49,187,621</u>	<u>P 49,733,878</u>

On December 16, 2008, MAIC received instruction from Lippo China Resources (LCR), the ultimate parent of the Group, that P74,425,175 of MAIC's liability to LCR will be transferred to the Parent Company. As of December 31, 2010, P49,733,878 of the total amount is still outstanding and is presented as Due from Related Parties.

13.03 Due to Related Parties

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
LCR	P 175,738,638	P 176,004,425	P 141,315,408	P 141,315,408
Solid Payback Holdings, Inc.	3,552,525	3,552,525	3,552,525	3,552,525
LSI	2,875,000	2,932,125	2,875,000	2,932,125
CPIL	-	875,202	-	857,202
	<u>P 182,166,163</u>	<u>P 183,364,277</u>	<u>P 148,963,442</u>	<u>P 148,657,260</u>

Due to related parties pertains to non-interest bearing advances from various associates for working capital purposes.

14. EMPLOYEE BENEFITS

Employee Retirement Benefit Obligation

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

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Present value of obligation	P 4,369,533	P 3,507,650	P 1,241,484	P 850,983
Fair value of plan assets	(854,508)	(779,919)	(248,590)	(228,905)
Unfunded liability	3,515,025	2,727,731	992,894	622,078
Unrecognized actuarial gain	(1,029,174)	(777,361)	(589,585)	(401,658)
	<u>P 2,485,851</u>	<u>P 1,950,370</u>	<u>P 403,309</u>	<u>P 220,420</u>

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

	Group		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	P 3,507,650	P 2,824,097	P 850,983	P 721,487
Current service cost	333,929	87,749	81,014	68,331
Interest cost	203,754	638,372	85,803	70,436
Actuarial (gains)/loss	324,200	(42,568)	223,684	(9,271)
Balance at end of year	<u>P 4,369,533</u>	<u>P 3,507,650</u>	<u>P 1,241,484</u>	<u>P 850,983</u>

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

	Group		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	P 779,919	P 727,863	P 228,905	P 212,336
Expected return on plan assets	31,197	29,114	9,156	8,493
Actuarial gains	43,392	22,942	10,529	8,076
Balance at end of year	<u>P 854,508</u>	<u>P 779,919</u>	<u>P 248,590</u>	<u>P 228,905</u>

As of December 31, 2010 and 2009, the plan assets consist of the following:

	Group		Parent Company	
	2010	2009	2010	2009
Investment in government securities	P 752,631	P 730,806	P 213,605	P 210,063
Deposit in banks	95,261	42,400	32,356	16,181
Interest receivables	7,673	7,683	2,937	2,689
Accrued trust fees payable	(1,057)	(970)	(308)	(28)
Balance at end of year	<u>P 854,508</u>	<u>P 779,919</u>	<u>P 248,590</u>	<u>P 228,905</u>

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

	Group			Parent Company		
	2011	2010	2009	2011	2010	2009
Balance at beginning of year	P 2,485,851	P 1,950,370	P 1,207,915	P 403,309	P 220,420	P 55,407
Expense recognized	-	535,481	742,455	-	182,889	165,013
Contributions paid	(736,868)	-	-	(242,069)	-	-
	<u>P 1,748,983</u>	<u>P 2,485,851</u>	<u>P 1,950,370</u>	<u>P 161,240</u>	<u>P 403,309</u>	<u>P 220,420</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rates	8.09%	9.52%	9.76%
Expected rate of salary increases	5.00%	5.00%	5.00%

15. TAXES

The breakdown of the Group and the Parent Company's NOLCO as of December 31, 2010, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

<u>Year</u>	<u>Group</u>		<u>Parent Company</u>		<u>Valid Until</u>
	<u>Original Amount</u>	<u>Tax Effect</u>	<u>Original Amount</u>	<u>Tax Effect</u>	
2010	P 7,847,822	P 2,354,347	P 3,055,335	P 916,601	2013
2009	3,538,267	1,061,480	3,538,267	1,061,480	2012
2008	<u>20,345,571</u>	<u>6,103,671</u>	<u>7,865,069</u>	<u>2,359,521</u>	2011
	<u>P 31,731,660</u>	<u>P 9,519,498</u>	<u>P 14,458,671</u>	<u>P 4,337,601</u>	

15.01 Optional Standard Deduction

Effective July 2008, RA No. 9504 was passed giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. For 2011, the Parent Company opted to continue claiming itemized deductions.

15.02 Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense was reduced from 42% to 33% of interest income subjected to final tax.

16. LOSS PER SHARE

Loss per share for the first quarters ended September 30, 2011, 2010 and 2009 is computed as follows:

	2011	2010	2009
a. Net loss	₱ 4,130,196	₱ 146,260,693	₱4,366,961
b. Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c. Basic EPS (a/b)	(₱0.0059)	(₱0.2089)	(₱0.0062)

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements. As of September 30, 2011, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

MEDCO HOLDINGS, INC.and SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
As of September 30, 2011

	NO OF DAYS OUTSTANDING					
	AMOUNT	1 -30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various	P 29,312					P29,312

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Dionisio E. Carpio, Jr.

(Contact Person)

811-0465

(Company Telephone Number)

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Month Day
2011

1	7	-	Q	
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(Form Type)

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Month Day
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

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

1. For the quarterly period ended **30 June 2011**
2. SEC Identification Number **39652**
3. BIR Tax Identification No. **004-844-938**
4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter
5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization
6. (SEC Use Only)
Industry Classification Code
7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code
8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**
9. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of each class</u>	<u>Number of shares of common stock</u> <u>outstanding and amount debt</u>
<u>outstanding</u> Common	700,000,000 shares

10. Are any or all of these securities listed on the Philippine Stock Exchange. Yes [/] No []

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).

Yes [/] No []

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

Yes [/]

No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

Item 2. Management's Discussion and Analysis or Results of Operation.

2011- Second Quarter Financial Highlights

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

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

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

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

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

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

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

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

2010- Second Quarter Financial Highlights

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

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

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

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

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2010 consisted of P45 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

2009-Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2009 decreased by 31% compared to the previous year's second quarter figure. Consolidated revenues for this quarter consisted of fees and other commissions (48%), interest income from short-term placements (21%), unrealized foreign exchange gain (9%) and other income (22%).

The decline in the consolidated revenues was mainly due to the smaller unrealized foreign exchange gain of only P0.3 million from the revaluation of US and Hong Kong Dollar placements booked during the quarter versus the P1.3 million recorded during the comparable quarter of last year. This was because the US and Hong Kong dollar exchange rates for this quarter appreciated vis-à-vis the peso by 1.84% only relative to the December 31, 2008 rates. On the other hand, the said foreign currencies gained against the peso by 8% as of June 30, 2008 compared to the December 31, 2007 exchange rates.

Consolidated expenses, on the other hand, decreased by approximately 25% relative to the previous year's second quarter. The expenses for this quarter were comprised of salaries and wages (41%), representation (19%), professional fees (12%), occupancy (8%), PSE fees (4%), and other expenses (16%).

The decrease in the consolidated expenses was mainly due to the non-incurrence of interest expense during this quarter as there was no outstanding bank loan anymore. In the second quarter of last year, interest expenses accounted for 21% of the total expenses.

With respect to the balance sheet as at the end of the quarter under review, there was no significant change in the total assets as compared to the previous year. The decrease in the loans and receivables account resulted from the collection of interest receivable from deposit placements which was accrued as at the end of December 31, 2008. On the other hand, the due from related parties account increased due to the advances obtained from the affiliates for working capital requirements. On the liabilities side, accounts payable and accrued expenses decreased by 33% due to the payment of liabilities accrued as of December 31, 2008.

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

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

The Company's internal sources of short-term and long-term liquidity are its liquid assets and those of its subsidiaries, which as at June 30, 2009 consisted of P50.8 million of cash and cash equivalents and short-term investment. Its external sources of liquidity would consist of advances from its affiliate companies or major shareholders.

PART II - OTHER INFORMATION

Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:

A handwritten signature in black ink, appearing to read "D. Carpio", written over a light blue horizontal line.

DIONISIO E. CARPIO, JR.
President

A handwritten signature in black ink, appearing to read "Me. Bathán", written over a light blue horizontal line.

MA. LOURDES B. BATHAN
Principal Accounting Officer

Second Quarter Top Five (5) Performance Indicators
June 30, 2011, 2010 and 2009

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2011	2010	2009	2011	2010	2009
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	19.93%	-16.17%	-30.93%	-5.68%	-38.05%	-16.32%
2. Net Income Growth*	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	-98.32%	4554.52%	-22.20%	-98.77%	14440.17%	21.75%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	-5.84%	-317.38%	-1.12%	-222.56%	-208.54%	-0.46%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.19x	0.24x	0.28x	9.52x	7.42x	11.65x
5. Debt-to-Equity-Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	5.02x	4.19x	0.70x	0.96x	0.93x	0.30x

* Losses

Note:

Y1= Current year

Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
June 30, 2011, 2010 and 2009

**MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2011 AND DECEMBER 31, 2010**

		2011	(Audited) 2010
<u>ASSETS</u>			
Cash and cash equivalents (Note 7)	P	35,083,120	P 39,053,962
Available-for-Sale Investments (Note 8)		31,792,321	31,792,321
Loans and receivables - net (Note 9)		53,338	235,454
Due from related parties (Note 13)		694,650	686,569
Equity Investment- net (Note 10)		148,746,260	148,746,260
Other Assets (Note 11)		8,867,513	8,771,916
TOTAL ASSETS	P	<u>225,237,202</u>	P <u>229,286,482</u>
<u>LIABILITIES AND EQUITY</u>			
LIABILITIES			
Accounts Payable and Accrued Expenses (Note 12)	P	4,420,287	P 5,113,554
Due to related parties (Note 13)		183,386,679	183,364,277
		<u>187,806,966</u>	<u>188,477,831</u>
EQUITY			
Equity attributable to equityholders of the parent			
Capital Stock - P1 par value			
Authorized, Issued & outstanding- 700,000,000 shares		700,000,000	700,000,000
Additional paid-in capital		25,498,912	25,498,912
Fair value losses in available-for-sale financial assets		(376,801)	(376,801)
Deficit		<u>(722,806,155)</u>	<u>(720,393,526)</u>
Total equity attributable to equityholders of the parent		2,315,956	4,728,585
Minority interest		35,114,280	36,080,066
		<u>37,430,236</u>	<u>40,808,651</u>
TOTAL LIABILITIES AND EQUITY	P	<u>225,237,202</u>	P <u>229,286,482</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
FOR THE SIX MONTHS ENDED JUNE 30, 2011 and 2010

	APRIL TO JUNE		JANUARY TO JUNE	
	2011	2010	2011	2010
REVENUES	P 2,546,339	P 1,834,978	P 3,587,325	P 2,991,274
EXPENSES	<u>3,195,325</u>	<u>220,912,618</u>	<u>6,965,740</u>	<u>224,796,742</u>
LOSS BEFORE MINORITY				
SHARE IN NET INCOME	(648,986)	(219,077,640)	(3,378,415)	(221,805,468)
MINORITY SHARE IN NET LOSS	<u>(429,670)</u>	<u>(77,647,255)</u>	<u>(965,786)</u>	<u>(78,226,906)</u>
LOSS BEFORE FINAL TAX	(219,316)	(141,430,385)	(2,412,629)	(143,578,562)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(219,316)	(141,430,385)	(2,412,629)	(143,578,562)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER	<u>(722,586,839)</u>	<u>(575,909,331)</u>	<u>(720,393,526)</u>	<u>(573,761,154)</u>
DEFICIT AT END OF QUARTER	P <u><u>(722,806,155)</u></u>	P <u><u>(717,339,716)</u></u>	P <u><u>(722,806,155)</u></u>	P <u><u>(717,339,716)</u></u>
LOSS PER SHARE (Note 16)	P <u><u>(0.0003)</u></u>	P <u><u>(0.2020)</u></u>	P <u><u>(0.0034)</u></u>	P <u><u>(0.2051)</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011, 2010, and 2009

		<u>2011</u>		<u>2010</u>		<u>2009</u>
Capital Stock- P1par value						
Authorized, issued and outstanding- 700,000,000	P	700,000,000	P	700,000,000	P	700,000,000
Additional Paid-In Capital		25,498,912		25,498,912		25,498,912
Fair value loss in avialable-for-sale financial assets		(376,801)		(408,353)		(597,152)
Deficit						
Balance, beginning of year		(720,393,526)		(573,761,154)		(568,097,307)
Net loss		<u>(2,412,629)</u>		<u>(143,578,562)</u>		<u>(3,084,715)</u>
Balance, end of quarter		<u>(722,806,155)</u>		<u>(717,339,716)</u>		<u>(571,182,022)</u>
Total Equity Attributable to Equityholders of the Parent Company		<u>2,315,956</u>		<u>7,750,843</u>		<u>153,719,738</u>
Minority Interest		<u>35,114,280</u>		<u>37,487,610</u>		<u>116,253,533</u>
Total Equity	P	<u><u>37,430,236</u></u>	P	<u><u>45,238,453</u></u>	P	<u><u>269,973,271</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011, 2010 AND
FOR THE YEAR ENDED DECEMBER 31, 2010

			(Audited)	
	June 30		December 31	June 30
	2011		2010	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss before tax and minority interest	P (3,378,415)	P	(226,045,273)	P (221,805,468)
Adjustments for:				
Impairment loss	-		218,135,140	218,135,140
Interest income	(364,021)		(1,268,133)	(439,100)
Interest expense	2,238		-	4,100
Depreciation and amortization	1,510		16,604	9,057
Unrealized forex exchange loss	129,609		804,766	23,788
Decrease(increase)in:				
Receivables	182,116		139,394	288,504
Other assets	(97,107)		(776,535)	(310,882)
Decrease in accounts payable and accrued expenses	(693,267)		312,816	(655,185)
Cash used in operating activities	(4,217,337)		(8,681,221)	(4,750,046)
Cash paid for income taxes	-		(238,880)	-
Net Cash Used in Operating Activities	(4,217,337)		(8,920,101)	(4,750,046)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	364,021		1,268,133	439,100
Net Cash Provided by Investing Activities	364,021		1,268,133	439,100
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid	(2,238)		-	(4,100)
Increase (decrease) in due from/to a related party	14,321		(2,281,632)	(169,750)
Net Cash Provided by (Used in) Financing Activities	12,083		(2,281,632)	(173,850)
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION OF CASH AND CASH EQUIVALENTS				
	(129,609)		(804,766)	(23,788)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,970,842)		(10,738,366)	(4,508,584)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	39,053,962		49,792,328	49,792,328
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	P 35,083,120	P	39,053,962	P 45,283,744

MEDCO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Nature of Business

Medco Holdings, Inc. (the Parent Company) is registered with the Securities and Exchange Commission (SEC) as a holding company. The Parent Company's shares of stocks are listed at the Philippine Stock Exchange (PSE). The registered office of the Parent Company and subsidiaries (the Group) is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

The Parent Company is 46.04% owned by Citivest Asia Limited, which is a wholly owned subsidiary of Lippo China Resources Limited (LCR or the Ultimate Parent).

The Group holds a 10.31% interest in Export and Industry Bank, Inc. (EIB) while the Parent Company holds a 64.54% interest in Medco Asia Investment Corporation (MAIC) and a 2.45% interest in EIB. MAIC was registered with the SEC on April 7, 1995 primarily to conduct business as an investment house.

Presently, MAIC holds 99.99% interests in Outperform Holdings, Inc. (OHI) and in Safeharbor Holdings, Inc. (SHI). Both OHI and SHI are registered with the SEC as holding companies and have not yet started commercial operations.

1.2 Status of Operations

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred recurring net losses of P2,412,629, P143,578,562 and P3,084,715 for the second quarter ended June 30, 2011, 2010 and 2009, respectively. The Group reported deficits of P 722,806,155 and P720,393,526 as at June 30, 2011 and December 31, 2010, respectively. Although the Group has incurred a deficit as of June 30, 2011 and December 31, 2010, management believes that the Group will be able to achieve positive business operations in the future. Consequently, the accompanying financial statements have been prepared assuming that the Group will continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Group 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. These financial statements have been prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets. 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 Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively or 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 peso, the Parent Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

2.02 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2010 that are Relevant to the Group

In 2010, the Group adopted the following new PFRS, revisions, amendments and annual improvements that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2010.

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are relevant information about these new and amended standards.

- (i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there were no transactions with non-controlling interests during the year.
- (ii) PFRS 3 (Revised 2008), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Company did not have any business acquisition during the year, hence, the adoption of the revised standard has no effect on the 2010 financial statements.

- (iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements since the Group did not distribute non-cash assets to stockholders during the year.
- (iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the 2009 Improvements to PFRS. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements but which did not also have any material impact on its financial statements:
- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
 - PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.
 - PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.
 - PAS 18 (Amendment), *Revenue*. The amendment provides guidance in determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

(b) *Effective in 2010 that are not Relevant to the Group*

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Group's financial statements:

PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Company Cash-settled Share-based Payment Transactions
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendments
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements.

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor 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.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Company usually provides adequate information in its financial statements in compliance with disclosure requirements.
- (iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
 - o Phase 1: Classification and Measurement
 - o Phase 2: Impairment Methodology
 - o Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

- (v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to Philippine Financial Reporting Standards* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PAS 1 (effective from July 1, 2010), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

2.03 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets

transferred, the liabilities incurred and the equity interests issued by the Parent Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses that are also recognized in equity.

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

Upon adoption in 2010 of PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*, the Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence. It has applied the new policy prospectively as required by the standards beginning January 1, 2010. As a result, no adjustments were necessary to any of the amounts previously recognized and reported in the financial statements.

Before the adoption of the revised PAS 27, transactions with non-controlling interests were treated as transactions with parties external to the group. As such, disposals resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Also previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

Non-controlling interests in 2010 and 2009 represent the interests not held by the Group in MAIC.

2.04 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, 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. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

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

(a) Loans and Receivables

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. 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 cash flows.

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

(b) Available-for-sale Financial Assets

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

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

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

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

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

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

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

2.05 Financial Liabilities

Financial liabilities include accounts payable and accrued expenses and due to related parties which are measured at amortized cost using the effective interest method.

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

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

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

2.06 Provisions and Commitments

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

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

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

2.07 Equity

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

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

Net unrealized fair value gains (losses) on available-for-sale financial assets comprise gains and losses due to the revaluation of available-for-sale financial assets.

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

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

2.08 Related Party Transactions

Related party transactions are transfer of resources, services or obligations between Medco Holdings, Inc. 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 or more intermediaries, control or are controlled by, or under common control with the Medco Holdings Inc. and subsidiaries; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of Medco Holdings Inc. and subsidiaries that gives them significant influence over Medco Holdings Inc. and subsidiaries and close members of the family of any such individual.

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

2.09 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. Financial information on business segments is presented in Note 4.02.

2.10 Revenue and Expense Recognition

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

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

- (a) *Commission and fees* – Revenue from professional services provided to subsidiaries of EIB is recognized as the service has been completed.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (c) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

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

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

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

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

2.14 Employee Benefits

(a) Post-employment benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution 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 Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

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

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

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

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

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period.

2.15 Earnings Per Share (EPS)

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

2.16 Income Taxes

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect 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.

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Available-for-sale Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

As of June 30, 2011 and December 31, 2010, the Group did not recognize any impairment losses in available-for-sale financial assets.

(b) Operating Lease

The Group has entered in a lease agreement as lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense for the second quarter charged to the Group's operations amounted to P765,692 in 2011, P 539,135 in 2010 and 2009. Rent expense is presented as part of Occupancy in the statements of comprehensive income (see Note 13).

(c) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.06 and relevant disclosures are presented in Note 17.

3.02 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 Loans and Receivables*

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

No provision for impairment losses was recognized by the Group in 2011, 2010, and 2009.

(b) *Valuation of Financial Assets Other than Loans and Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, 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 base of the instrument. The amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

(c) *Realizable Amount of Deferred Tax Assets*

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

The Group did not recognize any deferred tax asset as of June 30, 2011 and December 31, 2010.

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No additional impairment losses were recognized by the Group as of June 30, 2011 and December 31, 2010.

(e) *Retirement Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated retirement benefit obligation of the Group amounted to P2,485,851 as at June 30, 2011 and December 31, 2010.

4. SEGMENT REPORTING

4.01 *Business Segments*

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

- (a) Investment banking – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.
- (b) Others – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

4.02 Segment Assets and Liabilities

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

The business segment information of the Group as of and for the quarters ended June 30, 2011, 2010 and 2009 follows:

	2011		
	Investment Banking	Others	Total
Income:			
Commission and fees	P 1,720,588	P	P 1,720,588
Interest income	362,414	1,707	364,121
Other income	<u>1,584</u>	<u>1,501,032</u>	<u>1,502,616</u>
Gross revenues	2,084,586	1,502,739	3,587,325
Expenses	<u>4,808,486</u>	<u>2,157,254</u>	<u>6,965,740</u>
Loss before income tax	(2,723,900)	(654,515)	(3,378,415)
Income tax expense			
Operating loss	<u>(P 2,723,900)</u>	<u>(P 654,515)</u>	<u>(3,378,415)</u>
Non-controlling interest in net losses of subsidiary			<u>965,786</u>
Net loss			<u>(P 2,412,629)</u>
Segment assets	<u>P 186,096,237</u>	<u>P 34,326,109</u>	P 220,422,346
Goodwill			<u>4,814,856</u>
Total assets			<u>P 225,237,202</u>
Segment liabilities	<u>P 46,277,845</u>	<u>P 141,529,121</u>	<u>P 187,806,966</u>

	2010		
	Investment Banking	Others	Total
Income:			
Commission and fees	P1,720,588	-	P1,720,588
Interest income	438,179	922	439,101
Other income	<u>51,427</u>	<u>780,158</u>	<u>831,585</u>
Gross revenues	2,210,194	781,080	2,991,274
Expenses	<u>222,841,134</u>	<u>1,955,608</u>	<u>224,796,742</u>
Operating loss	(P 220,630,940)	(P 1,174,528)	(221,805,468)
Minority interest in net losses of subsidiary			<u>(78,226,906)</u>
Net loss			(P 143,578,562)
Segment assets	<u>P 196,491,469</u>	<u>P 33,557,309</u>	P 230,048,778
Goodwill			<u>4,814,856</u>
Total assets			<u>P 234,863,634</u>
Segment liabilities	<u>P 46,960,261</u>	<u>P 142,664,920</u>	<u>P 189,625,181</u>
	2009		
	Investment Banking	Others	Total
Income:			
Dividend income	P 23,773	P -	P 23,773
Commission and fees	1,720,588	-	1,720,588
Interest income	732,890	750	733,640
Foreign exchange gain	326,702	-	326,702
Other income	<u>763,559</u>	<u>-</u>	<u>763,559</u>
Gross revenues	3,567,512	750	3,568,262
Expenses	<u>5,084,901</u>	<u>2,106,081</u>	<u>7,190,982</u>
Operating loss	(P 1,517,389)	(P 2,105,331)	(3,622,720)
Minority interest in net losses of subsidiary			<u>(538,005)</u>
Net loss			(P 3,084,715)
Segment assets	<u>P 426,810,974</u>	<u>P 26,936,269</u>	P 453,747,243
Goodwill			<u>4,814,856</u>
Total assets			<u>P 458,562,099</u>
Segment liabilities	<u>P 45,078,631</u>	<u>P 143,510,197</u>	<u>P 188,588,828</u>

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.01 Foreign Currency Risk

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

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

5.02 Interest Rate Risk

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At June 30, 2011 and December 31, 2010, the Group is exposed to changes in market interest rates of its bank placements which are subject to variable interest rates (see Note 7). All other financial assets and liabilities have fixed rates.

5.03 Liquidity Risk

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

As at June 30, 2011 and December 31, 2010, the Group's financial assets and liabilities with their corresponding contractual maturities are shown below.

		Group					
		2011			2010		
		Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:							
Cash and cash equivalents	P	35,083,120	P -	P 35,083,120	P 39,053,962	P -	P 39,053,962
Available-for sale financial assets			31,792,321	31,792,321	-	31,792,231	31,792,321
Loans and receivables (at gross)		51,338	40,315,000	40,366,338	89,225	40,459,229	40,548,454
	P	35,134,458	P 72,107,321	P 107,214,779	P 39,143,187	P 72,251,550	P 111,394,737
Financial Liabilities:							
Due to related parties	P	183,386,679	P -	P 183,386,679	P 183,364,277	P -	P 183,364,277
Accounts payable and accrued expenses		281,110	4,139,177	4,420,287	141,574	2,470,809	2,612,383
	P	183,667,789	P 4,139,177	P 187,806,966	P 183,505,851	P 2,470,809	P 185,976,660

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

5.04 Credit Risk

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

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

As part of Group policy, bank deposits and short-term placements are only maintained with reputable financial institutions. Cash on hand amounting to P8,000 in 2011 and 2010 is not included in determining credit risk. Cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum insurance coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) No. 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure that the Group continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio of the Group and the Parent Company as of June 30, 2011 and December 31, 2010 are shown below.

	Group		Parent Company	
	2011	2010	2011	2010
Total liabilities	P 187,806,966	P 188,477,831	P 149,431,808	P 149,656,690
Total equity	37,430,236	40,808,651	1,864,985	2,519,500
Debt-to-equity ratio	<u>5.02: 1</u>	<u>4.62 : 1</u>	<u>80.12:1</u>	<u>59.40 : 1</u>

The Group has honored its covenant obligations, including maintaining the required debt-to-equity ratio for both years.

As of June 30, 2011 and December 31, 2010, the Parent Company has a total authorized capital stock of 700,000,000 common shares at P1 par value per share. As of those dates, all of the shares were issued and outstanding.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Group		Parent Company	
	2011	2010	2011	2010
Short-term placements	P 17,328,610	P 21,470,487	P -	P -
Cash in banks	17,746,510	17,575,475	2,295,327	1,867,236
Petty cash fund	<u>8,000</u>	<u>8,000</u>	<u>-</u>	<u>-</u>
	<u>P 35,083,120</u>	<u>P 39,053,962</u>	<u>P 2,295,327</u>	<u>P 1,867,236</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 90 days and earn annual effective interest ranging from 1% to 4% in 2011 and 1.5% to 6.00% in 2010.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cost				
Quoted	P 1,083,578	P 1,083,578	P -	P -
Not quoted	<u>76,292,533</u>	<u>76,292,533</u>	<u>76,268,750</u>	<u>76,268,750</u>
	77,376,111	77,376,111	76,268,750	76,268,750
Allowance for impairment	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>	<u>(45,000,000)</u>
	32,376,111	32,376,111	31,268,750	31,268,750
Unrealized fair value loss	<u>(583,790)</u>	<u>(583,790)</u>	<u>-</u>	<u>-</u>
Market value	<u>P 31,792,321</u>	<u>P 31,792,321</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

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

The fair value of quoted available-for-sale financial assets have been determined directly by reference to published prices in active markets.

9. LOANS AND RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Accounts receivable	P 40,366,338	P 40,459,229	P 40,366,464	P 40,382,858
Interest receivable	<u>-</u>	<u>89,225</u>	<u>-</u>	<u>-</u>
	40,366,338	40,548,454	40,366,464	40,382,858
Allowance for impairment	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>
	<u>P 53,338</u>	<u>P 235,454</u>	<u>P 53,464</u>	<u>P 69,858</u>

The net carrying amounts of these financial assets are reasonable approximation of their fair values.

10. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

This account consists of the following:

	% Interest Held	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
At acquisition cost					
Associates:					
EIB	10.31%	P 860,659,849	P 860,659,849		
	2.45%			P 478,380,834	P 478,380,834
Subsidiary:					
MAIC	64.54%	<u>-</u>	<u>-</u>	<u>199,995,929</u>	<u>199,995,929</u>
Allowance for impairment		<u>860,659,849</u>	<u>860,659,849</u>	<u>678,376,763</u>	<u>678,376,763</u>
		<u>(711,913,589)</u>	<u>(711,913,589)</u>	<u>(610,090,942)</u>	<u>(610,090,942)</u>
		<u>P 148,746,260</u>	<u>P 148,746,260</u>	<u>P 68,285,821</u>	<u>P 68,285,821</u>

The net carrying amount of the Parent Company's investments at the end of June 30, 2011 and December 31, 2010 pertain to MAIC.

On May 15, 2009, EIB shares were suspended for trading by the Philippine Stock Exchange. The suspension on EIB's shares has not been lifted yet, thus no quoted market values were available for the investment in EIB from that date onwards.

11. OTHER ASSETS

This account consists of the following:

	<u>Note</u>	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable					
withholding tax		2,794,179		-	-
-					
Security deposits	13.01	384,687	384,687	-	-
Miscellaneous		<u>873,791</u>	<u>1,036,282</u>	<u>708,695</u>	<u>950,647</u>
		<u>P 8,867,513</u>	<u>P 8,771,916</u>	<u>P 999,927</u>	<u>P 950,647</u>

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of MAIC at the date of acquisition. As of June 30, 2011 and December 31, 2010, no impairment loss was recognized by the Company.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Group		Parent Company	
		2011	2010	2011	2010
Accounts payable		P 1,463,399	P 1,595,620	P -	P -
Retirement benefit obligation	14	2,485,851	2,485,851	403,309	403,309
Income tax payable	15	-	15,320	-	15,320
Other payables		<u>968,202</u>	<u>1,016,763</u>	<u>373,170</u>	<u>562,801</u>
		<u>P 4,420,285</u>	<u>P 5,113,554</u>	<u>P 776,479</u>	<u>P 981,430</u>

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Group transacts with entities that are considered related parties under PAS 24, *Related Party Disclosures*. The following transactions were carried out with related parties:

13.01 Purchase of Services

The Group leases its office space from Capital Place International Limited – Philippine Branch (CPIL), a related party, for a period of one year, renewable upon mutual agreement of the parties.

Total rental charged to operations for the second quarter amounted to P765,692 in 2011, P539,135 in 2010, and 2009 in the consolidated financial statements. These are included under Occupancy expenses in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 as of June 30, 2011 and December 31, 2010, are included under Other Assets in the statements of financial position.

13.02 Due from Related Parties

This account consists of the following:

	Group		Parent Company	
	2011	2010	2011	2010
Lippo Securities, Inc. (LSI)	P 694,650	P 686,569	P -	P -
MAIC	<u>-</u>	<u>-</u>	<u>48,684,861</u>	<u>49,733,878</u>
	<u>P 694,650</u>	<u>P 686,569</u>	<u>P 49,187,621</u>	<u>P 49,733,878</u>

On December 16, 2008, MAIC received instruction from Lippo China Resources (LCR), the ultimate parent of the Group, that P74,425,175 of MAIC's liability to LCR will be transferred to the Parent Company. As of December 31, 2010, P49,733,878 of the total amount is still outstanding and is presented as Due from Related Parties.

13.03 Due to Related Parties

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
LCR	P 175,738,638	P 176,004,425	P 141,315,408	P 141,315,408
Solid Payback Holdings, Inc.	3,552,525	3,552,525	3,552,525	3,552,525
LSI	3,044,561	2,932,125	3,044,561	2,932,125
CPIL	<u>1,050,955</u>	<u>875,202</u>	<u>1,050,955</u>	<u>857,202</u>
	<u>P 183,386,679</u>	<u>P 183,364,277</u>	<u>P 148,963,449</u>	<u>P 148,657,260</u>

Due to related parties pertains to non-interest bearing advances from various associates for working capital purposes.

14. EMPLOYEE BENEFITS

Employee Retirement Benefit Obligation

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

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Present value of obligation	P 4,369,533	P 3,507,650	P 1,241,484	P 850,983
Fair value of plan assets	(854,508)	(779,919)	(248,590)	(228,905)
Unfunded liability	3,515,025	2,727,731	992,894	622,078
Unrecognized actuarial gain	(1,029,174)	(777,361)	(589,585)	(401,658)
	<u>P 2,485,851</u>	<u>P 1,950,370</u>	<u>P 403,309</u>	<u>P 220,420</u>

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

	Group		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	P 3,507,650	P 2,824,097	P 850,983	P 721,487
Current service cost	333,929	87,749	81,014	68,331
Interest cost	203,754	638,372	85,803	70,436
Actuarial (gains)/loss	<u>324,200</u>	<u>(42,568)</u>	<u>223,684</u>	<u>(9,271)</u>
Balance at end of year	<u>P 4,369,533</u>	<u>P 3,507,650</u>	<u>P 1,241,484</u>	<u>P 850,983</u>

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

	Group		Parent Company	
	2010	2009	2010	2009
Balance at beginning of year	P 779,919	P 727,863	P 228,905	P 212,336
Expected return on plan assets	31,197	29,114	9,156	8,493
Actuarial gains	<u>43,392</u>	<u>22,942</u>	<u>10,529</u>	<u>8,076</u>
Balance at end of year	<u>P 854,508</u>	<u>P 779,919</u>	<u>P 248,590</u>	<u>P 228,905</u>

As of December 31, 2010 and 2009, the plan assets consist of the following:

	Group		Parent Company	
	2010	2009	2010	2009
Investment in government securities	P 752,631	P 730,806	P 213,605	P 210,063
Deposit in banks	95,261	42,400	32,356	16,181
Interest receivables	7,673	7,683	2,937	2,689
Accrued trust fees payable	<u>(1,057)</u>	<u>(970)</u>	<u>(308)</u>	<u>(28)</u>
Balance at end of year	<u>P 854,508</u>	<u>P 779,919</u>	<u>P 248,590</u>	<u>P 228,905</u>

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

	Group			Parent Company		
	2010	2009	2008	2009	2008	2008
Balance at beginning of year	P 1,950,370	P 1,207,915	P 1,378,802	P 220,420	P 55,407	P 130,919
Expense recognized	535,481	742,455	555,151	182,889	165,013	136,293
Contributions paid	<u>-</u>	<u>-</u>	<u>(726,038)</u>	<u>-</u>	<u>(-)</u>	<u>(211,805)</u>
	<u>P 2,485,851</u>	<u>P 1,950,370</u>	<u>P 1,207,915</u>	<u>P 403,309</u>	<u>P 220,420</u>	<u>P 55,407</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rates	8.09%	9.52%	9.76%
Expected rate of salary increases	5.00%	5.00%	5.00%

15. TAXES

The breakdown of the Group and the Parent Company's NOLCO as of December 31, 2010, which can be claimed as deductions from future taxable income within three years from the year the taxable loss was incurred, is shown below.

<u>Year</u>	<u>Group</u>		<u>Parent Company</u>		<u>Valid Until</u>
	<u>Original Amount</u>	<u>Tax Effect</u>	<u>Original Amount</u>	<u>Tax Effect</u>	
2010	P 7,847,822	P 2,354,347	P 3,055,335	P 916,601	2013
2009	3,538,267	1,061,480	3,538,267	1,061,480	2012
2008	<u>20,345,571</u>	<u>6,103,671</u>	<u>7,865,069</u>	<u>2,359,521</u>	2011
	<u>P 31,731,660</u>	<u>P 9,519,498</u>	<u>P 14,458,671</u>	<u>P 4,337,601</u>	

15.01 Optional Standard Deduction

Effective July 2008, RA No. 9504 was passed giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. For 2011, the Parent Company opted to continue claiming itemized deductions.

15.02 Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense was reduced from 42% to 33% of interest income subjected to final tax.

16. LOSS PER SHARE

Loss per share for the first quarters ended June 30, 2011, 2010 and 2009 is computed as follows:

	2011	2010	2009
a. Net loss	₱ 2,412,629	₱ 143,578,562	₱3,084,715
b. Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c. Basic EPS (a/b)	(₱0.0034)	(₱0.2051)	(₱0.0044)

17. COMMITMENTS AND CONTINGENCIES

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements. As of June 30, 2011, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's financial statements.

MEDCO HOLDINGS, INC.and SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
As of June 30, 2011

	NO OF DAYS OUTSTANDING				
AMOUNT	1 -30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various	P 53,338				P53,338