

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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Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

_____ LCU

Document ID

_____ Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

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 2008**
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 outstanding and amount debt 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.

2008-Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2008 declined by 3% compared to last year's third quarter figure. During the quarter under review, revenues consisted of fees and other commissions (33%), unrealized foreign exchange gain (29%), interest income from short-term placements (19%), dividend income (13%), and other income (6%).

The unrealized foreign exchange gain amounting to P2.3 million this quarter resulted from the revaluation of Hong Kong dollar placements of the Company's subsidiary. The exchange rate at the end of the third quarter of 2008 went up to P6.0413 to a Hong Kong dollar compared to the P5.3078 exchange rate as of the end of December 31, 2007. Last year's figure for the same quarter reflected an unrealized foreign exchange loss of P1.8 million.

In spite of the gain from the foreign exchange transactions, we still noted a decline in the consolidated revenues. The decrease was mainly due to the decline in the interest income account 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 by its dollar-denominated deposits.

Consolidated expenses, on the other hand, decreased by approximately 23% relative to the previous year's third quarter. The expenses for this quarter were composed of salaries and wages (32%), interest expense (21%), representation & entertainment (15%), professional fees (9%) and other expenses (23%).

The major components of expenses decreased substantially in the quarter under review compared to last year's comparative period. Salaries & wages decreased by 19%, representation & entertainment went down by 27%, and interest expense declined by 15%. This was the result of the cost-cutting measures which the Company has been implementing continuously in recent years.

With respect to the balance sheet as at the end of the third quarter of 2008, 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 placement which was accrued on December 31, 2007. On the liabilities side, the due to affiliate account also decreased by approximately P3 million, or 3%, due to the payment made for the pre-operating expenses of the newly created companies of Lippo China Resources. On the other hand, the accounts payable and accrued expenses account went up by 22% because of the funds borrowed for the Company's working capital requirement.

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, 2008 consisted of P55 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.

Furthermore, aside from those cited above, 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. The Company is also not aware of any events that will cause a material change in the relationship between costs and revenues.

Assessment of Financial Risk Exposure

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is closely coordinated with its Board of Directors, and is focused on ensuring that short to medium-term cash requirements are met on time and in minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The significant financial risks to which the Company is exposed to are described as follow:

Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from its U.S and Hong Kong Dollar denominated bank deposits.

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

Interest Rate Risk

The Company is exposed to interest rate risk on its bank placements and loans payable which are subject to variable interest rates. It tracks interest rate movements and makes adjustments in the mix of its financial assets and liabilities as deemed necessary.

Liquidity Risk

The Company's management sees to it that maturing funds are available to service scheduled cash outlays and that a minimum level of borrowing facilities is in place to cover its contingent needs.

The Company's financial liabilities as at September 30, 2008, with their corresponding contractual maturities are presented in detail in Note 13 of the Notes to the Financial Statements.

Credit Risk

With respect to credit risk arising from financial assets of the Company, which are comprised of cash and receivables, in case of default of the counterparty, the maximum exposure is equal to the carrying amount of the instruments. The Company regularly monitors the financial position and credit standing of its counterparties and incorporates this information into its credit risk controls.

Disclosure for Financial Instruments

As of September 30, 2008, the financial instruments included in the balance sheets are the loans and receivables account and available-for-sale financial assets.

Loans and Receivables- P3,519, 413 or 0.7% of the total assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company places money with a counterparty with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is an objective evidence that the Company will not be able to collect all amounts due from 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.

Available-for-sale Financial Assets- P32,809,061 or 7% of the total assets

This account is composed primarily of an 18.18% investment in shares of Manila Exposition Complex, Inc. (MECI) and a 10% investment in I-Mart corporation with costs amounting to P31,268,750 and 45,000,000, respectively. These investments were previously reported in the balance sheet using the equity method but were subsequently reclassified as Available-for-Sale Financial Asset in 2005 as a result of the adoption of PAS 39.

In 2004, the Company provided a 100% allowance for impairment loss amounting to P45 million on its investment in I-Mart Corporation as a result of the latter's cessation of business.

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 equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

The Company has no investment in foreign securities as at September 30, 2008.

2007-Third Quarter Financial Highlights

Consolidated revenues for the nine months ending on September 30, 2007 decreased by 27% relative to last year's comparable period. During the period under review, the revenue account mainly consisted of fees and other commissions (32%), interest income from short-term placements (27%), and other income (41%). On the other hand, last year's revenue account for the comparable period was composed of interest income from short-term placements (56%), fees and other commissions (30%), and other income (14%).

The decrease in the consolidated revenues was mainly due to the 65% decline in the interest income account. The decline in interest income resulted from the reduction in deposit placements of the Company's subsidiary to fund its acquisition of equity shares in Export and Industry Bank, Inc. (EIB). In May 2006, the subsidiary purchased an additional 1,464,285,600 EIB common shares which increased its ownership interest in the investee bank from 0.92% to 7.84%. On the other hand, the other income account increased significantly by 114% because of the cash dividend received by the Company from its affiliate company.

Consolidated expenses also decreased by approximately 23% versus last year's comparable period. During the period under the review, expenses were comprised of salaries & wages (30%), interest expense (19%), representation & entertainment (16%), and other various expenses (35%).

Due mainly to the cost cutting measures implemented by the Company, the major expense accounts decreased during the period under review. The salaries & wages account decreased by 25%, representation & entertainment expenses were reduced by 27% and interest expense declined by 12%.

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

As to the balance sheet, there was no significant movement in the total assets amount as at the end of third quarter as compared to the end of last year. However, there were significant movements in its components, particularly in the cash and cash equivalents and other asset accounts. The changes resulted from the reclassification of the short-term investment that amounted to P45.4 from the other asset account, where it was booked in 2006, to the cash and cash equivalent account in 2007.

The increase in the liabilities account, particularly the accounts payable and accrued expenses account, resulted from the additional advances obtained by the Company for its working capital requirements.

There were also 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, 2007 consisted of P61.7 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.

Furthermore, aside from those cited above, 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. The Company is also not aware of any events that will cause a material change in the relationship between costs and revenues.

2006-Third Quarter Financial Highlights

Consolidated revenues for the third quarter of 2006 decreased by 42% compared to the prior year's third quarter figure. During the quarter under review, the revenue account consisted of interest income from short-term placements (56%), fees and other commissions (30%), and other income (14%). Whereas, last year's revenue account for the third quarter was composed mainly of interest income from short-term placements (69%), fees and other commissions (17%), dividend income (8%) and other income (7%).

The decrease in the revenue account was mainly brought about by the 53% decline in interest income from placements. The said interest income decline was in turn mainly due to the reduction in the amount of the deposit and placement accounts of the Company's subsidiary as a result of its acquisition of equity shares in Export and Industry Bank, Inc. (EIB).

Consolidated expenses decreased by approximately 15% compared to last year's third quarter. The major expenses for this quarter consisted of salaries and wages (32%), representation and entertainment expenses (17%), interest expense (16%), taxes and licenses (8%), unrealized foreign loss (7%), and professional and consultancy fees (5%).

In the third quarter of 2006, the peso exchange rate appreciated and reduced the unrealized foreign exchange loss by 26%, from the previous quarter's P2 million loss to this quarter's loss of only P1.5 million. The peso exchange rate vis-à-vis the US dollar appreciated by P2.675 or 5%, from P53.062: USD1 on December 31, 2005 to P50.387: USD1 at the end of September 30, 2006. By comparison, in September 2005, the unrealized foreign exchange loss incurred by the Company's subsidiary resulted from the revaluation of its dollar deposit and placement account. The peso appreciated then by only P0.286 or 0.5% from an exchange rate of P56.341: USD1 on December 31, 2004 to P56.055: USD1 at the end of September 30, 2005.

A significant decrease in the consultancy and professional fee account was also noted in this year's third quarter. Medco Holdings, Inc.'s consultancy agreement was terminated in November 2005.

There was no other significant movement in the expense components, aside from the accounts mentioned above.

With reference to the balance sheets, total assets increased by 27% compared to last year's figure. Significant movements were noted also in some components thereof, specifically in the short-term investment and cash and cash equivalents accounts. The peso placement (short-term investment) was terminated to fund the acquisition by the Company's subsidiary of equity shares of EIB. On the other hand, as a result of the financial quasi reorganization and capital increase of EIB as a prelude to the new capital infusion made by a consortium of mostly new investors, the Company's consolidated equity share in EIB was reduced from 17.49% to 7.50% as of September 30, 2006.

Meanwhile, the cash and cash equivalent account increased approximately by 70% due to the reclassification from the short-term investment account.

On the liabilities side, Medco obtained an additional short-term loan from a local bank for its working capital requirement. This transaction caused the loan payable account to increase by 6%. A significant increase in the accounts payable and accrued expenses account was also noted in the quarter under review. The Company's subsidiary borrowed funds from a related party amounting to P116 million to finance its investment in EIB. There are no events that will trigger a direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

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

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, 2006 consisted of P94 million of cash and cash equivalents and short-term investment. Its external sources of liquidity consist of advances from its affiliate companies or major shareholders.

Furthermore, aside from those cited above, 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. The Company is also not aware of any events that will cause a material change in the relationship between the costs and revenues.

**Third Quarter Top Five (5) Performance Indicators
September 30, 2008, 2007, and 2006**

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2008	2007	2006	2008	2007	2006
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-2.65%	-26.47%	-42.22%	40.23%	-43.81%	-40.26%
2. Net Loss Growth	$\frac{\text{Net Loss Y1-Y0}}{\text{Net Loss Y0}}$	-24.47%	-23.21%	-6.09%	-84.19%	-10.22%	-1057.74%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Ave. Stockholders' Equity}}$	-3.75%	-4.64%	-5.81%	-0.33%	-2.09%	-2.26%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.96x	0.62x	0.63x	10.97x	0.72x	0.83x
5. Debt-to-Equity-Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	1.96x	1.94x	1.82x	0.37x	0.35x	.020x

Note:

Y1= Current year

Y0= Previous year

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

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
September 30, 2008 and 2007

MEDCO HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
September 30, 2008 and December 31, 2007

	<u>2008</u>	<u>(Audited)</u> <u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents (Note 6)	P 55,212,594	P 59,186,798
Available-for-Sale Investments (Note 7)	32,809,061	32,809,061
Loans and receivables - net (Note 8)	3,519,413	4,654,589
Equity Investment- net (Note 9)	374,071,390	374,071,390
Other Assets (Note 10)	<u>26,939,193</u>	<u>26,226,312</u>
TOTAL ASSETS	P <u>492,551,651</u>	P <u>496,948,150</u>
<u>LIABILITIES AND EQUITY</u>		
LIABILITIES		
Loans Payable (Note 11)	67,423,681	67,423,681
Accounts Payable and Accrued Expenses (Note 15)	28,938,901	23,655,747
Due to an Affiliate (Note 12)	<u>118,018,740</u>	<u>121,283,907</u>
	<u>214,381,322</u>	<u>212,363,335</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
Deficit	<u>(564,913,052)</u>	<u>(558,892,131)</u>
Total equity attributable to equityholders of the parent	160,585,860	166,606,781
Minority interest	<u>117,584,469</u>	<u>117,978,034</u>
	<u>278,170,329</u>	<u>284,584,815</u>
TOTAL LIABILITIES AND EQUITY	P <u>492,551,651</u>	P <u>496,948,150</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 and 2007

	<u>JULY TO SEPTEMBER</u>		<u>JANUARY TO SEPTEMBER</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
REVENUES	P 2,606,449	P 1,620,641	P 7,772,315	P 7,984,050
EXPENSES	<u>4,614,378</u>	<u>4,704,963</u>	<u>14,186,817</u>	<u>18,444,801</u>
LOSS BEFORE MINORITY				
SHARE IN NET INCOME	(2,007,929)	(3,084,322)	(6,414,502)	(10,460,751)
MINORITY SHARE IN NET INCOME	<u>48,285</u>	<u>(324,897)</u>	<u>(393,581)</u>	<u>(2,488,694)</u>
LOSS BEFORE FINAL TAX	(2,056,214)	(2,759,425)	(6,020,921)	(7,972,057)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(2,056,214)	(2,759,425)	(6,020,921)	(7,972,057)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER	<u>(562,856,838)</u>	<u>(555,049,835)</u>	<u>(558,892,131)</u>	<u>(549,837,203)</u>
DEFICIT AT END OF QUARTER	P <u><u>(564,913,052)</u></u>	P <u><u>(557,809,260)</u></u>	P <u><u>(564,913,052)</u></u>	P <u><u>(557,809,260)</u></u>
LOSS PER SHARE (Note 18)	P <u><u>(0.0029)</u></u>	P <u><u>(0.0039)</u></u>	P <u><u>(0.0086)</u></u>	P <u><u>(0.0114)</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008, 2007, AND 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss before tax and minority interest	P (6,414,502)	P (10,460,751)	P (13,153,169)
Adjustments for:			
Depreciation	9,996	20,114	69,182
Interest income	(1,473,765)	(2,156,821)	(6,124,321)
Interest expense	2,963,761	3,488,841	3,942,696
Unrealized foreign exchange loss (gain)	(2,284,759)	1,810,526	1,616,882
Decrease(increase) in:			
Receivables	1,135,176	779,228	2,362,802
Other assets	(722,861)	43,846,983	(5,365,846)
Short-term investment	-	-	300,000,000
Increase (Decrease) in accounts payable and accrued expenses	5,283,154	6,733,561	116,101,555
Cash generated from operations	(1,503,800)	44,061,681	399,449,781
Cash paid for income taxes	-	-	-
Net Cash Provided by (Used in) Operating Activities	<u>(1,503,800)</u>	<u>44,061,681</u>	<u>399,449,781</u>
CASH FLOWS FROM INVESTING ACITIVITIES			
Interest received	1,473,765	2,156,821	6,124,321
Net increase in investment in subsidiary and associate	-	(1,999,989)	(366,071,400)
Net increase in available-for-sale securities	-	(1,663,578)	-
Additions to property & equipment	-	-	(24,767)
Net Cash Provided by (Used in) Investing Activites	<u>1,473,765</u>	<u>(1,506,746)</u>	<u>(359,971,846)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	(2,963,761)	(3,488,841)	(3,942,696)
Increase (decrease) in due to a related party	(3,265,167)	(380,666)	4,000,000
Net Cash Provided by (Used in) Financing Activities	<u>(6,228,928)</u>	<u>(3,869,507)</u>	<u>57,304</u>
EFFECTS OF FOREIGN EXCHANGE REVALUATION			
OF CASH AND CASH EQUIVALENTS	<u>2,284,759</u>	<u>(1,810,526)</u>	<u>(1,616,882)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(3,974,204)</u>	<u>36,874,902</u>	<u>37,918,357</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>59,186,798</u>	<u>24,900,477</u>	<u>55,612,989</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER	<u>P 55,212,594</u>	<u>P 61,775,379</u>	<u>P 93,531,346</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008, 2007, and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</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>
Deficit			
Balance, beginning of year	(558,892,131)	(549,837,203)	(536,498,236)
Net loss	<u>(6,020,921)</u>	<u>(7,972,057)</u>	<u>(10,381,125)</u>
Balance, end of quarter	<u>(564,913,052)</u>	<u>(557,809,260)</u>	<u>(546,879,361)</u>
Total Equity	P <u><u>160,585,860</u></u>	P <u><u>167,689,652</u></u>	P <u><u>178,619,551</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

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

The registered office of the Parent Company and the subsidiary (the Group) is located at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City.

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 net losses of P6,020,921, P7,972,057 and P10,381,125 for the quarters ended September 30, 2008, 2007 and 2006, respectively, and has deficit of P564,913,052, P557,809,260 and P546,879,361 as of September 30, 2008, 2007 and 2006, respectively, as a result of recurring losses arising from business operations. Although the Company has incurred net losses and has deficit for the quarters ended September 30, 2008, 2007 and 2006, management believes that the Company will be able to achieve positive business operations in the future. Consequently, the accompanying financial statements have been prepared assuming that the Company 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 in the succeeding pages. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs 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) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.12).

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) *Effective in 2007 that are Relevant to the Group*

In 2007, the Group adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

PAS 1 (Amendment)	: Presentation of Financial Statements
PFRS 7	: Financial Instruments: Disclosures

Discussed below is the impact on the financial statements of these new accounting standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Group's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that became necessary due to this change in PAS 1 are shown in Note 5.
- (ii) PFRS 7, *Financial Instruments: Disclosures*. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:
- a sensitivity analysis, to explain the Group's market risk exposure with regard to its financial instruments; and,
 - a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Company availed of the transitional relief with regard to the disclosure of the sensitivity analysis granted by FRSC and presented only the relevant new disclosures required by PFRS 7 for 2007 (see Note 4).

The first time application of these standards, amendments and interpretations has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) Effective in 2007 But not Relevant to the Group

PFRS 4 (Amendment)	: Insurance Contracts
Philippine Interpretation IFRIC 7	: Applying the Restatement Approach under PAS 29, Financial Reporting In Hyper Inflationary Economies
Philippine Interpretation IFRIC 8	: Scope of PFRS 2
Philippine Interpretation IFRIC 9	: Re-assessment of Embedded Derivative
Philippine Interpretation IFRIC 10 Impairment	: Interim Financial Reporting and

(c) Effective Subsequent to 2007

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2007. The following new standards are relevant to the Group which the Group will apply in accordance with their transitional provisions.

2008:

Philippine Interpretation IFRIC 14	: PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
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2009:

PAS 1 (Revised 2007)	: Presentation of Financial Statements
PFRS 8	: Operating Segments

Below is a discussion of the possible impact of these accounting standards.

- (i) Philippine Interpretation IFRIC 14, *PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Group based on the set-up of the pension trust fund, the Group determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

- (ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Company will apply PAS 1 (Revised 2007) in its 2009 financial statements.

2.3 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 64.54%-owned subsidiary, MAIC, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with its Subsidiary, 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 MAIC are prepared for the same reporting period as the Group, using consistent accounting principles.

The Parent Company accounts for its investment in subsidiary and minority interest as follows:

(a) *Investments in Subsidiary and Associate*

A subsidiary is an entity over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights. A subsidiary is fully consolidated from the date the Group obtains control until such time that such control ceases.

Acquired subsidiary is subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Associate is an entity over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

The Group's investments in subsidiary and associate are accounted for in these consolidated financial statements at cost, less any impairment loss. Impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered. Such impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. The amount of the impairment loss is recognized in profit or loss. Impairment losses recognized are not reversed.

(b) Transactions with Minority Interests

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals of equity investments to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases of equity shares from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of the subsidiary.

Minority interests in 2008 and 2007 represent the interests not held by the Group in MAIC.

2.4 Segment Information

The Group presents segment information according to nature of products and services provided, with each segment representing a strategic business unit that offers different products and serve different markets. Segment accounting policies are the same as the policies described in the succeeding paragraphs. The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

2.5 Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments (HTM) and available-for-sale financial (AFS) assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for financial assets at FVTPL, 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.

Cash are defined as cash on hand and demand deposits.

All financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs are expensed in the income statement.

The foregoing categories of financial instruments are more fully described in the succeeding pages.

(a) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or are designated by the entity to be carried at FVTPL upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as 'held-for-trading' unless they are designated as hedges.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at FVTPL may not subsequently be reclassified.

(b) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods 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 losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

(c) *Held-to-maturity Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

(d) *Available-for-sale Financial Assets*

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

All financial assets within this category are initially recognized at fair value plus transaction costs and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. 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.

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.

2.6 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of the Subsidiary at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but would require an annual test for impairment. It is presented as part of Other assets in the balance sheet.

Goodwill is subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units is represented by each primary reporting segment.

2.7 Financial Liabilities

Financial liabilities include interest-bearing loans and borrowings (including accrued interest thereon), accounts payable and accrued expenses and due to a related party.

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 income statement under the caption Interest and Bank Charges.

Bank loans are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and

are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

Financial liabilities are derecognized from the balance sheet only when the obligations are extinguished either through payment, cancellation or expiration.

2.8 Provisions

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 balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each balance sheet date 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.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.9 Equity

Capital stock is determined using 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.

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

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

2.10 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company and its subsidiary and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

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

Cost and expenses are recognized in the income statement upon utilization of the service 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 the income statement on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2.12 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine pesos, which is the Group’s functional presentation currency.

(b) Transactions and Balances

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 income statement.

2.13 Impairment of Non-financial Assets

The Group’s investments in subsidiary and associate and intangible assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use 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.

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) Retirement Benefit Obligations

The Group does not have a formal retirement plan. However, the Group accrues for the retirement benefit obligation based on an actuarial valuation performed by an actuary annually.

The liability recognized in the balance sheet for retirement benefit obligation is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, if any, 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 pension liability.

Actuarial gains and losses are not recognized as an 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.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. 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 balance sheet date.

2.15 Income Taxes

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 balance sheet date. 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 the income statement.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical 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 Group follows the guidance of PAS 39 on determining when an investment is other-than-temporarily impaired. This determination 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 flow.

As of September 30, 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.

(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 2.8.

3.2 Key Sources of Estimation Uncertainty

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

(a) Useful Life of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment net of accumulated depreciation, amortization and any impairment losses amounted to P15,176 and P4,937 as of September 30, 2008 and December 31, 2007, respectively (see Note 10).

(b) 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 for the third quarter of 2008.

(c) 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. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, 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 equity.

No additional impairment loss was recognized by the Group on its available-for-sale financial assets as of September 30, 2008 and December 31, 2007.

(d) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at each balance sheet date 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.

Deferred tax assets amounting to P18,811,689 as of December 31, 2005 was derecognized on January 1, 2006 against the related valuation allowance, thus, no deferred tax asset was reported on September 30, 2008 and December 31, 2007 balance sheets.

(e) Impairment of Non-financial Assets

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 2.13. 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 on its investments in associates as of September 30, 2008.

(f) 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 retirement benefit obligation amounted to P1,380,584 as September 30, 2008 and December 31, 2007.

4. 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 actively 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.

4.1 Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from the Group's United States (U.S.) and Hong Kong 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.

4.2 Interest Rate Sensitivity

The Group monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. At September 30, 2008 and December 31, 2007, the Company is exposed to changes in market interest rates of its bank placements and loans payable which are subject to variable interest rates (see Note 6). All other financial assets and liabilities have fixed rates.

4.3 Liquidity Risk

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

As at September 30, 2008 and December 31, 2007 the Group's financial liabilities with their corresponding contractual maturities are presented in detail in Note 13.

4.4 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet, as summarized below:

	<u>Notes</u>	<u>Group</u>
Cash	6	P 55,212,594
Loans and receivables	8	3,519,413
Other assets	10	<u>26,939,193</u>
		<u>P 85,671,200</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.

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.

5. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure that the Company's ability to 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 Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company 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 Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

	<u>September 30</u> <u>2008</u>		<u>December 31</u> <u>2007</u>
Total liabilities	P 214,381,322	P	212,363,335
Total equity	278,170,329		284,584,815
Debt-to-equity ratio	<u>0.77 : 1</u>		<u>0.75 : 1</u>

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

6. CASH

This account consists of:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Short-term placements	P 35,301,134	P 40,120,577	P -	P -
Cash in banks	19,903,460	19,058,221	578,739	2,059,293
Petty cash fund	<u>8,000</u>	<u>8,000</u>	<u>-</u>	<u>-</u>
	<u>P 55,212,594</u>	<u>P 59,186,798</u>	<u>P 578,739</u>	<u>P 2,059,293</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 90 to 91 days and earn annual effective interest ranging from 3% to 5.25% in the third quarter of 2008 and 3.50% to 5.25% in 2007.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As of September 30, 2008 and December 31, 2007, the available-for-sale financial assets, net of accumulated discount, consist of:

	Group		Parent Company	
	2008	2007	2008	2007
Shares of stocks	P 77,809,061	P 77,809,061	P 76,268,750	P 76,268,750
Allowance for impairment	(45,000,000)	(45,000,000)	(45,000,000)	(45,000,000)
	P 32,809,061	P 32,809,061	P 31,268,750	P 31,268,750

The shares of stocks pertain to the Company's 18.18% investment in Manila Exposition Complex, Inc. (MECI) and 10% investment in I-Mart Corporation with cost amounting to P31,268,750 and P45,000,000, respectively, in 2008 and 2007. These investments were previously reported in the balance sheet using the equity method but were subsequently reclassified as Available-for-Sale Financial Asset in 2005 as a result of the adoption of PAS 39 *Financial Instruments: Recognition and Measurement*.

In 2004, the Parent Company provided a 100% allowance for impairment losses amounting to P45 million on its investment in I-Mart Corporation as a result of the latter's cessation of business.

8. LOANS AND RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2008	2007	2008	2007
Loans	P 41,521,261	P 41,539,669	P 40,314,441	P 40,331,409
Accounts receivable	2,311,152	3,020,142	-	-
Other receivables		407,778	-	2,000
	43,832,413	44,967,589	40,314,441	40,333,409
Allowance for impairment losses	(40,313,000)	(40,313,000)	(40,313,000)	(40,313,000)
	P 3,519,413	P 4,654,589	P 1,441	P 20,409

The net carrying amount of these financial assets is a reasonable approximation of their fair value.

9. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE

This account consists of the following:

	Group		Parent Company	
	2008	2007	2008	2007
At equity				
Acquisition cost				
EIB (2.45% owned)	P 844,452,250	P 844,452,250	P 478,380,851	P 478,380,851
MAIC (64.54% owned)	-	-	<u>199,995,912</u>	<u>199,995,912</u>
	<u>844,452,250</u>	<u>844,452,250</u>	<u>678,376,763</u>	<u>678,376,763</u>
Accumulated equity in net earnings (losses)		-		-
Allowance for impairment losses	<u>(478,380,850)</u>	<u>(478,380,850)</u>	<u>(478,380,834)</u>	<u>(478,380,834)</u>
	<u>366,071,400</u>	<u>366,071,400</u>	<u>199,995,929</u>	<u>199,995,929</u>
At cost:				
Safeharbor Holdings, Inc.	3,999,995	3,999,995	-	-
Goldwin Bancshares, Inc.	<u>3,999,995</u>	<u>3,999,995</u>	-	-
	<u>7,999,990</u>	<u>7,999,990</u>	-	-
	<u>P 374,071,390</u>	<u>P 374,071,390</u>	<u>P 199,995,929</u>	<u>P 199,995,929</u>

Equity Investment in EIB

The Subsidiary owns 21,300,000 Class A shares of EIB amounting to P15,397,615. In 2004, certain accounts of the Subsidiary were restated to recognize full provision for impairment loss on its investment in EIB amounting to P15,397,615 resulting mainly from recognizing unrecognized losses of EIB amounting to about P6.2 billion.

In May and June 2006, the Subsidiary purchased an additional 1,464,285,600 EIB Class B shares amounting to P366,071,400 which increased its ownership interest in EIB from 0.92% to 7.84%. Total carrying amount of the Subsidiary's investment in EIB amount to P366,071,400 as of March 31, 2008 and December 31, 2007. EIB's Class B shares are not traded at the stock exchange.

On February 15, 2006, Cardinal Bancresources, Inc. assigned the Subsidiary its rights over 3,999,995 shares of Safeharbor Holdings, Inc. Also on the same date, Goldwin Bancshares, Inc. assigned the Subsidiary its rights over 3,999,995 shares of Outperform Holdings. The Group recorded the acquisition at P7,999,990 and recognized a liability to Lippo China Resources for the funding.

10. OTHER ASSETS

This account consists of the following:

	Note	Group		Parent Company	
		2008	2007	2008	2007
Bank placements		P 19,108,347	P 19,108,347	P -	P -
Goodwill		4,814,856	4,814,856	-	-
Creditable withholding tax		1,489,252	1,032,353	-	-
Prepayments		422,674	764,089	422,674	524,630
Miscellaneous	15.1	1,104,064	506,667	505,606	391,708
		<u>P 26,939,193</u>	<u>P 26,226,312</u>	<u>P 928,282</u>	<u>P 916,338</u>

Bank placements consist of placements with various banks, with maturities expected to extend beyond one year. The effective interest rates of such bank placements are 3.5% in the second quarter of 2008 and 2007.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of the Subsidiary at the date of acquisition.

Miscellaneous asset includes the balance of property and equipment of the Subsidiary with net book value of P15,176 and P4,937 as of September 30, 2008 and December 31, 2007, respectively.

11. INTEREST-BEARING LOANS AND BORROWINGS

This account represents loans obtained by the Parent Company from a local bank with interest rates ranging from 6.50% to 8.00% per annum in the third quarter of 2008 and 2007. The loans are acquired to finance the working capital requirements of the Group.

12. DUE TO A RELATED PARTY

This account pertains to non-interest bearing advances of the Subsidiary from Lippo China Resources Limited (LCR), a related party, that is payable on demand and with an original amount of P119,565,022 to fund pre-operating expenses of newly created companies of LCR. Outstanding balance of this account at the end of the third quarter of 2008 amounted to P118,018,740 and P121,283,907 as of December 31, 2007.

13. MATURITY PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Group					
	2008			2007		
	Due Within	Due Beyond	Total	Due Within	Due Beyond	Total
	One Year	One Year		One Year	One Year	
Financial Assets:						
Cash	P 55,212,594	P -	P 55,212,594	P 59,186,798	P -	P 59,186,798
AFS financial assets	-	32,809,061	32,809,061	-	32,809,061	32,809,061
Loans and receivables (at gross)						
Loans	41,521,261	-	41,521,261	43,864,253	-	43,864,253
Trade and other receivables	2,311,512	-	2,311,512	1,973,661	-	1,973,661
Accrued interest receivable	-	-	-	162,028	-	162,028
Other assets - other investments	-	19,108,347	19,108,347	-	19,108,347	19,108,347
	<u>99,045,367</u>	<u>51,917,408</u>	<u>150,962,744</u>	<u>105,186,740</u>	<u>51,917,408</u>	<u>157,104,148</u>
Financial Liabilities:						
Interest-bearing loans and borrowings	<u>P 67,423,681</u>	<u>P -</u>	<u>P 67,423,681</u>	<u>P 67,423,681</u>	<u>P -</u>	<u>P 67,423,681</u>
Accounts payable and accrued expenses						
Due to affiliates		118,018,740	118,018,740	121,283,907	-	121,283,907
Accounts payable	1,247,883	-	1,247,883	3,532,767	-	2,532,767
Interest payable	-	1,484,106	1,484,106	-	1,484,106	1,484,106
Other liabilities	<u>26,206,912</u>	<u>-</u>	<u>26,206,912</u>	<u>18,638,874</u>	<u>-</u>	<u>18,638,874</u>
	<u>27,454,795</u>	<u>119,502,846</u>	<u>146,957,641</u>	<u>143,455,548</u>	<u>1,484,106</u>	<u>144,939,654</u>
	<u>P 94,878,476</u>	<u>P 119,502,846</u>	<u>P 214,381,322</u>	<u>P 210,879,229</u>	<u>P 1,484,106</u>	<u>P 212,363,335</u>

14. EMPLOYEE BENEFITS

Employee Retirement Benefit Obligation

The Group does not have a formal retirement plan. Retirement benefit obligation is accrued based on an actuarial valuation performed by an independent actuary annually.

The movement in the present value obligation of the Group is as follows:

	September 30 2008	December 31 2007
Present value of obligation, beginning	P 2,018,383	P 2,018,383
Current service cost	89,891	89,891
Interest cost	167,294	167,294
Unrecognized actuarial loss	1,132,426	1,132,426
Other income – retirement	<u>-</u>	<u>-</u>
Present value of obligation, ending	<u>P 3,407,994</u>	<u>P 3,407,994</u>

The amounts of retirement benefit obligation recognized as part of Accounts Payable and Accrued Expenses in the balance sheets are determined as follows:

	September 30 <u>2008</u>	December 31 <u>2007</u>
Present value of unfunded obligation	P 3,407,994	P 3,407,994
Unrecognized actuarial (gain) loss	(2,027,410)	(2,027,410)
Other income - retirement	<u>-</u>	<u>(-)</u>
Retirement benefit obligation	<u>P 1,380,584</u>	<u>P 1,380,584</u>

Income on retirement arises as a result of change in actuarial estimates due to different assumptions.

15. RELATED PARTY TRANSACTIONS

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:

15.1 Purchase of Services

The Parent Company's subsidiary leases an office space from Capital Place International Limited – Philippine Branch, an affiliate. Rent expense amounted to P808,702 for both the third quarter ended September 30, 2008 and September 30, 2007, is shown as part of Occupancy and Equipment-Related Expenses in the income statements. Related rental deposits amount to P239,459 for both for the period ended September 30, 2008 and December 31, 2007 and are shown as part of Other Assets account in the balance sheets (see Note 10).

15.2 Due to/from Related Parties

The Group obtains advances from its related parties for working capital purposes. The advances are non-interest bearing and repayable within 12 months. The significant transactions of the Group in the normal course of business with related parties are described below:

- (a) The Subsidiary grants advances to Lippo Securities, Inc. (LSI) for working capital purposes. Due from Lippo Securities Inc., shown as part of Loans and Receivables in the balance sheets, amounted to P2,311,152 and P2,290,368 as of September 30, 2008 and December 31, 2007.
- (b) The Parent Company, on the other hand, receives advances from LSI and Capital Place International, Ltd. (CPIL), an affiliate, to finance its working capital requirements. Total outstanding advances from these affiliates as of September 30, 2008 and December 31, 2007 amounted to P49,971,977 and P4,460,041, respectively, for LSI and P850,956 and P724,973, respectively, for CPIL. These amounts are reported as part of Accounts Payable and Accrued Expenses in the balance sheets.

(c) In 2006, the Subsidiary received non-interest bearing advances from Lippo China Resources (LCR) amounting to P119,565,022. Balance at the end of September 30, 2008 amounted to P118,018,740 and P121,283,907 as of December 31, 2007. These advances were made to fund pre-operating expenses of newly created companies of LCR (see also Note 12).

16. INCOME TAXES

The breakdown of consolidated NOLCO, 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>Original Amount</u>	<u>Applied in Current Year</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2007	P 9,576,162	P -	P -	P 9,576,162	2010
2006	5,926,230	-	-	5,143,101	2009
2005	9,523,094	-	-	9,523,094	2008
2004	<u>15,461,911</u>	<u>-</u>	<u>15,461,911</u>	<u>-</u>	2007
	<u>P 40,487,397</u>	<u>P -</u>	<u>P 15,461,911</u>	<u>P 24,242,357</u>	

Recent Tax Regulations

On October 19, 2007, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 12-207 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for fiscal quarter ending September 30, 2007. This RR amended certain provisions of RR No. 9-98 which specifically provides for the computation of the MCIT at the end of each taxable year.

Thus, in the computation of the tax due for the taxable quarter, if the computed MCIT is higher than the quarterly normal income tax, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT which is 2% of the gross income as of the end of the taxable quarter.

On May 24, 2005, Republic Act No. 9337 (RA 9337), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and become effective beginning on November 1, 2005. The following are the major changes brought about by RA 9337 that are relevant to the Company:

- (a) RCIT rate was increased from 32% to 35% starting on November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning on January 1, 2009;
- (b) Value-added tax (VAT) rate of 10% was increased from 10% to 12% effective on February 1, 2006;
- (c) VAT rate is now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;
- (d) Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter; and,

- (e) Creditable input VAT was capped at a maximum of 70% of output VAT per quarter which was effective until the third quarter of 2006 (this cap was removed effective for quarters ending on December 31, 2006 and onwards).

17. SEGMENT INFORMATION

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

The Group's business segments are as follows:

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

The business segment information of the Group as of and for the third quarter ended September 30, 2008, and December 31, 2007 as follows:

	2008		
	Investment Banking	Others	Total
Income:			
Interest income	₱1,471,267	₱2,498	₱1,473,765
Other income - net	5,398,550	900,000	6,298,550
Gross income	6,869,817	902,498	7,772,315
Expenses	7,979,875	6,206,942	14,186,817
Loss before income tax	(1,110,058)	(5,304,444)	(6,414,502)
Benefit from income tax	-	-	-
Operating loss			(6,414,502)
Minority interest in income of a subsidiary			(393,582)
Net loss			(₱6,020,920)
Segment assets	₱254,963,654	₱232,773,141	₱487,736,795
Goodwill			4,814,856
Total assets			₱492,551,651
Segment liabilities	₱123,324,663	₱91,056,659	₱214,381,322

	2007		
	Investment Banking	Others	Total
Income:			
Dividend income	P -	P 6,000,000	P 6,000,000
Commission and fees	3,600,547	-	3,600,547
Interest income	3,568,044	14,391	3,582,435
Other income – net	<u>580</u>	<u>517,753</u>	<u>518,333</u>
Gross income	7,169,171	6,532,144	13,701,315
Expenses	<u>16,810,121</u>	<u>8,908,351</u>	<u>25,718,472</u>
Loss before income tax	(9,640,950)	(2,376,207)	(12,017,157)
Income tax expense	(<u>536,089</u>)	(<u>2,878</u>)	(<u>538,967</u>)
Operating loss	(P <u>10,177,039</u>)	(P <u>2,379,085</u>)	(12,556,124)
Minority interest in net losses of a subsidiary			<u>3,608,371</u>
Net loss			(P <u>8,947,753</u>)
Segment assets	<u>P 257,872,575</u>	<u>P 234,260,719</u>	P 492,133,294
Goodwill			<u>4,814,856</u>
Total assets			<u>P 496,948,150</u>
Segment liabilities	<u>P 125,123,542</u>	<u>P 87,239,793</u>	<u>P 212,363,335</u>

18. LOSS PER SHARE

Loss per share amounts for the quarters ended September 30, 2008, 2007 and 2006 is computed as follows:

	2008	2007	2006
a. Net loss	₱ 36,020,921	₱ 7,972,057	₱10,381,125
b. Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c. Basic EPS (a/b)	(₱0.0086)	(₱0.0114)	(₱0.0148)

19. COMMITMENTS AND CONTINGENCIES

19.1 Leases

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

Total quarterly rental charged to operations amounted to P808,702 in 2008, 2007 and 2006 in the consolidated financial statements, and P234,000 in 2008, 2007, and 2006, in the Parent Company financial statements. These are included under Occupancy and Equipment-related expenses in the income statements. Security deposits and advance rentals paid totaling P239,459 as of September 30, 2008 and December 31, 2007 are included under Other Assets in the balance sheets.

19.2 Others

There are 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, 2008, 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, 2008

	AMOUNT	NO OF DAYS OUTSTANDING				
		1 -30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various	3,519,413					3,519,413