

COVER SHEET

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SEC Registration Number

M E D C O H O L D I N G S , I N C .

(Company's Full Name)

3 1 s t F l o o r , R u f i n o P a c i f i c T o w e r ,
6 7 8 4 A y a l a A v e n u e , M a k a t i C i t y

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

Dionisio E. Carpio, Jr.

(Contact Person)

811-0465

(Company Telephone Number)

1 2 3 1

Month Day
(Fiscal Year)

F O R M 2 0 - I S

(Form Type)

Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

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

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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
September 5, 2008, 10 a.m. at Ballroom 1, Mandarin Oriental, Makati Avenue, Makati City
9. Approximate date on which the Information Statement is first to be sent or given to security holders
August 12, 2008
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
September 5, 2008

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 September 5, 2008 at 10:00 a.m. at Ballroom 1, Mandarin Oriental, Makati City, Metro Manila, Philippines. The meeting is being held for the following purposes:

- a. Approval of the minutes of the annual meeting of stockholders held on August 30, 2007;
- b. Approval of the Annual Report and the Audited Financial Statements as of December 31, 2007;
- 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 August 30, 2007;
- d. Election of the members of the Board of Directors for the year 2008;
- e. Appointment of Punongbayan & Araullo, the Philippine representative of Grant Thornton International, as external auditors of the Corporation for the year 2008;
- f. Other matters that may properly come before September 5, 2008 (date of meeting).

Only stockholders of record in the books of the Corporation at the close of business on August 6, 2008 (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 August 14, 2007, at least fifteen (15) days prior to the Annual Meeting.

Medco Holdings, Inc.

By:


Alex Erlito S. Fider
Corporate Secretary

Makati City, Philippines July 18, 2008

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 : September 5, 2008
Time: 10:00 a.m.
Place: Ballroom, Mandarin Oriental, Makati 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 August 12, 2008.

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 August 6, 2008 (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 August 6, 2008 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 July 22, 2008

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	Citivist Asia Limited 24/F Lippo Tower, Lippo Centre, 89	Foreign	322,314,874	46.04%

	Queensway Hong Kong (Parent Company of the Issuer)	Queensway Hong Kong (Parent Company of the Issuer)			
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	107,981,154	15.43%
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	87,064,012	12.44%

Mr. Dionisio E. Carpio, Jr., or in his absence, Mr. Bobby Cheng Sai Chong, is appointed as the representative of Citivest Asia Limited ("Citivest") 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 Citivest, except that they have been the regular appointees of Citivest for purposes of attending and voting the shares of Citivest at the stockholders' meetings of the Company on behalf of and in accordance with the instructions of Citivest.

The record owners of more than five percent (5%) of the outstanding shares of PCD Nominee Corp. as of July 22, 2008 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	EIB Securities, Inc. 11 th Floor Export Bank Plaza, Chino Roces Avenue, Makati City (a subsidiary of Export and Industry Bank, Inc., which is an affiliate of Medco Holdings. Inc.)	Lippo Securities Limited (represented by Jenny Wong – employee-settlement department, holding a position as settlement officer)	Foreign	72,308,012	10.33%
			TOTAL	72,308,012	

(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 July 22, 2008:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common Stock	Dionisio E. Carpio, Jr.	1,009 (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	John L.W. Lee	1 (direct)	British	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	51,024		

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, Independent Directors and Executive Officers

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:

1. 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.
2. 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.
3. 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 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. John Lee.

The following were nominated by Mr. Dionisio E. Carpio, Jr., an incumbent director and officer of the Company, and determined to be qualified by the Nomination Committee to constitute the Final List of Candidates. The information on the business experience of the below-named individuals that is disclosed herein is for the last five (5) years:

JOHN L. W. LEE, British, age fifty-nine (59), is the Chairman of the Company from September 2006 to the present. He was director of the Company from 1995 up to the present. He was the president of the Company from 1995 to September 2006. He is the director Lippo Limited from March 21, 1991 up to the present. He is the chief executive officer of Lippo Limited from June 29, 2005 up to the present. He is a director of Lippo China Resources Limited from July 30, 1992 up to the present and a director of Hongkong Chinese Limited from September 1, 1992 up to the present, all of which are Hong Kong based companies. He is a qualified accountant. He was a partner of one of the leading international accounting firms in Hong Kong until he joined the Lippo Group in 1990. He has extensive experience in corporate finance, specializing in mergers and acquisitions.

DIONISIO E. CARPIO, JR., Filipino, age sixty-two (62), is a director and the President of the Company from September 2006 up to present. He was the treasurer and director 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, EIB Realty Developers, Inc. from 2002 to the present, EIB Securities, Inc. since 2002 to the present and ValueGen Financial Insurance Company, 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 thirty (30) years experience in commercial, investment and trust banking, as well as line management.

CALY D. ANG, Filipino, age sixty (60), has been a director of the Company from 1995 to the present. She has been an independent director of the Company 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 (40), 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-one (61), is a director and the Treasurer of the Company. She has been a director of the Company since 2000 up to the present and the Treasurer since 2006 to the present. She has thirty (30) years experience in banking, particularly in international and correspondent banking as well as foreign operations. She also has a Bachelor of Science degree in Commerce from the University of Santo Tomas. She is also a director of Export and Industry Bank, Inc. since 2004 up to October 10, 2006, and got elected again on March 2, 2007 as a director of Export and Industry Bank, Inc.

SAY HING WONG, British, age fifty-eight (59), 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.

BOBBY CHENG SAI CHONG, British, age fifty-nine (59), is a director of the Company since September 18, 2006 up to the present. He is a director of Export and Industry Bank, Inc. since November 1999 to the present and was the Vice president of the bank for six (6) years until February 28, 2004. He joined the bank again as the vice president for central processing group on October 30, 2006 and continued to serve as such up to the present. He has more than thirty (30) years experience in banking and finance.

The nominees for directors as listed above are the incumbent directors of the Company inclusive of the independent director and executive officers. 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, Mrs. Caly D. Ang and Mr. Solomon R.B. Castro.

Mr. Solomon R. B. Castro has been an independent director since 2002. Mrs. Caly D. Ang is an independent director since 2006.

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.

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

ALEX ERLITO S. FIDER, Filipino, age fifty-five (55), 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.

PAULINE C. TAN, Filipino, age thirty nine (39), is 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 was a director until 25 May 2006. She is also the incumbent Director/Treasurer of 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., Medco Asia Investment Corporation 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.

MA. LOURDES B. BATHAN, Filipino, age thirty-four (34), 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.

(2) Significant Employees

There are no significant 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.

(3) Family Relationship

None.

(4) Involvement in Certain Legal Proceedings

Based on their individual responses after due inquiry as of July 22, 2008, 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.

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

Please refer to Note 15 (pages 24 & 25) of the audited financial statements (Annex "B")

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, MAIC also leases its office space from an affiliate, Capital Place International Limited for a period of two (2) years with an annual rental of P765,129.

There is no ongoing contractual or other commitments as a result of the advances.

(6) 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, which is attached as Annex "A" hereof.

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 July 22, 2008 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	71.1%
Lippo Limited	Hong Kong	Lippo Cayman Limited	57.34%

Details of the principal subsidiary and affiliated companies and their activities as of July 22, 2008 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)	2005	None	None	None
	2006	None	None	P75,000
	2007	None	None	P45,000
	2008 (estimated)	None	None	P45,000

John L. W. Lee (Chairman)	2005	None	None	None
	2006	None	None	P75,000
	2007	None	None	P45,000
	2008 (estimated)	None	None	P45,000
Pauline C. Tan (Treasurer and Compliance Officer)	2005	P1,200,000	None	None
	2006	P1,200,000	None	None
	2007	P1,200,000	None	None
	2008 (estimated)	P1,200,000	None	None
Ma. Lourdes B. Bathan (Corporate information officer)	2005	P480,000	None	None
	2006	P480,000	None	None
	2007	P480,000	None	None
	2008 (estimated)	P480,000	None	None
All Officers and Directors as a group	2005	P1,680,000	None	None
	2006	P1,680,000	None	P525,000
	2007	P1,680,000	None	P315,000
	2008 (estimated)	P1,680,000	None	P315,000

Notes: The aforementioned Other Annual Compensation consists only *per diems* given to directors.

Each Director receives *per diems* of P1,500 for each board meeting.

The corporate secretary does not receive a salary but his law firm is just paid a professional retainer fee.

(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

Last year, 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, 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.

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 P350,000 in 2007 for the regular audit of the Company's annual financial statements in connection with the statutory and regulatory filings of the Company.

The aggregate fees billed for the professional services rendered by Punongbayan & Araullo amounted to P330,000 in 2006 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 August 30, 2007

The Minutes of the Annual Meeting of the stockholders of the Company held on August 30, 2007 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 August 30, 2007 pertain to the following matters:

- a. Approval of the minutes of the annual meeting of stockholders held on September 15, 2006;

- b. Approval of the Annual Report and the Audited Financial Statements as of December 31, 2006;
- 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 September 15, 2006;
- d. Approval of the delegation by the stockholders to the Board of Directors of the power to amend or repeal any by-laws or adopt new by-laws of the Corporation.
- e. Election of the following members of the Board of Directors for the year 2007;
 - i. Mr. John L.W. Lee;
 - ii. Mr. Say Hing Wong;
 - iii. Mr. Dionisio E. Carpio, Jr.;
 - iv. Ms. Edna D. Reyes;
 - v. Mrs. Caly D. Ang (independent director);
 - vi. Mr. Solomon R. B. Castro (independent director); and
 - vii. Mr. Bobby Cheng Sai Chong.
- f. Appointment of Punongbayan & Araullo, the Philippine representative of Grant Thornton International, as external auditors of the Corporation for the year 2007;

Approval of the Annual Report and Audited Financial Statements for 2007

The 2007 Management Report and the Audited Financial Statements of the Company for the period ended December 31, 2007 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 2007 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, August 30, 2007.

In particular, the Board passed and approved the following resolutions on the following dates:

Date of Meeting of the Board of Directors	Resolutions/Matters Taken Up
March 18, 2008	Approval of Employee's Retirement Plan
April 11, 2008	Approval of Audited Financial Statements for the year 2007
	Approval of Purchase of Motor Vehicle
July 18, 2008	Postponement of Annual Stockholders' Meeting and Setting the date of the

	Annual meeting of the Stockholders; Setting the Record Date; Approval of agenda for the Annual Meeting
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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 August 6, 2008 may vote at the scheduled stockholders' meeting. Registration of stockholders and proxies attending the meeting will open at 9:00 a.m. on September 5, 2008.

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 2007 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, 2006 and December 31, 2007, and the SEC Form 17-Q for the Second Quarter Ending June 2008 are also submitted herewith as Annexes "A" and "B", 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 7 August 2008.

MEDCO HOLDINGS, INC.

By:

A handwritten signature in black ink, appearing to read "Dionisio E. Carpio, Jr.", written in a cursive style.

Dionisio E. Carpio, Jr.
President

MANAGEMENT REPORT

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.

(1) Plan of Operation

The Company is confident that it can satisfy its cash requirements for the next three years and beyond as it has substantial liquid assets on a consolidated basis, which as at December 31, 2007 consisted of P59 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 does not have plans for any product research and development, nor any plan to purchase or sale of plant and significant equipment for the next twelve (12) months.

As of December 31, 2007, there were three (3) employees of the Parent Company. One was clerical employee and two were administrative. The Company does not anticipate any increase in its employees within the ensuing twelve (12) months.

(2) Management's Discussion and Analysis

(a) Current Year's Result of Operations

As discussed in the succeeding section covering the Past Years' Results of Operations, the losses incurred during the 2007 fiscal year were attributed mainly to the following underlying causes: the reduction in interest income due to the lower interest rates then prevailing as well as the substantial decrease in the interest-earning cash placements of the Company's subsidiary, the decline in other revenues brought about by the then bearish stock market, and the increase in foreign exchange losses resulting from the adverse effect on the Company's subsidiary's dollar-denominated cash assets of the stronger Philippine peso versus the U.S. dollar.

As likewise discussed in the section covering the interim quarterly periods, the downtrend in interest income persisted during the first two quarters of 2008. On the positive side, the unrealized foreign exchange gain on the Company's subsidiary's aforementioned dollar assets resulting from the creeping depreciation of the peso exchange rate during this period partially offsetted the decline in interest income.

We expect that the Company's revenues for the remaining six months of 2008 will improve in view of the gradually-increasing interest rate scenario and the steadily weakening peso exchange rate. Additionally, the continuing implementation of the Company's cost cutting program is expected to yield further reductions in operating expenses. Thus, it is our hope that the Company's bottom line in 2008 may at least be at break-even, if not yet already positive.

(b) Past Year's Results of Operations

2007

Consolidated revenues for the year ended December 31, 2007 decreased by 21% relative to the prior year's figures. During the year under review, the revenue account consisted of dividend income (44%), commission and fees (26%), interest income (26%), and other revenues (4%). On the other hand, last year's revenue account was composed of interest income (52%), fees and other commissions (24%), dividend income (17%), and other revenues (7%).

The decrease in the consolidated revenues was mainly due to the 60% decline in the interest income account. The decline in interest income resulted in turn from the reduction in bank deposit placements of the Company's subsidiary to fund its acquisition of equity shares in Exportbank. In May 2006, the subsidiary purchased an additional 1,464,285,600 Exportbank common shares which increased its ownership interest in the said investee bank from 0.92% to 7.84%. Aside from the said reduction in bank placements, there was also a downward trend in the interest yield from peso bank placements and foreign currency bank deposits as the prevailing interest rates moved downwards in tandem with the declining U.S federal funds rate.

There was also a 56% decrease in the other revenues account as compared to the previous year. In 2006, MAIC realized a gain on its investment in a newly-listed stock, the initial public offering of which it helped to underwrite. There were however no such opportunities for investment gains in 2007. This was because when information about the magnitude of the losses incurred by some U.S. financial institutions from subprime mortgage loan defaults came out in the third quarter of 2007, the U.S. stock market and inevitably other stock markets, including our own, reacted negatively and turned bearish. Then, market sentiment was dampened further by subsequent indications that the U.S. economy was going into a recession.

In contrast to the aforementioned unfavorable trends, we note that dividend income received from Manila Exposition Complex, Inc. doubled in 2007.

On the expense side, consolidated expenses also decreased by approximately 21% versus the previous year's figures. During the year under the review, expenses were mainly comprised of employee benefits (31%), interest and bank charges (17%), foreign exchange losses (13%), entertainment, amusement and recreation expenses (11%), and other expenses (28%).

Due mainly to the cost cutting measures implemented by the Company, the major expense accounts decreased during the year under review as compared to 2006. Taxes & licenses were significantly lower by 74%, entertainment expenses were reduced by 40%, employee benefits decreased by 20% and interest expenses declined by 16%.

The unrealized foreign exchange loss booked by the Company's major subsidiary increased by 21% from an amount of P2.8 million in 2006 to P3.4 million in 2007. At the end of 2007, the peso exchange rate stood at P41.401 vis-à-vis the US dollar, appreciating by P7.731 or approximately 16% from the December 31, 2006 exchange rate of P49.132.

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

2006

Consolidated revenues decreased by 30% during the year under review. It basically composed of interest income from deposit and placements (52%), fees and commission (24%), dividend income (17%), and other income (7%). The decrease in the revenue account was mainly brought about by the reduction on the interest rate of the deposit and placement accounts. An almost 10% decline of the interest rate was noticed, from a rate ranging from 5.75% to 6% in 2005 to an average of 5% in 2006. Aside from the decline of interest rate, the amount of the deposit and placement accounts was also reduced because of the acquisition by the Company's subsidiary of equity shares of Exportbank.

There was no significant change in the consolidated expenses, it only decreased by 0.68% compared to last year's figure. The expenses were mainly composed of salaries and wages (34%), interest and charges (18%), representation and entertainment (16%), professional and management fees (7%), taxes and licenses (7%), and other expenses (18%).

The salaries and wages account increased by 21% due to the accrual of retirement expense for the year 2006. Same with taxes and licenses account that increased by 19% because of the payment of capital gains tax by the Company's subsidiary.

On the other hand, interest and charges, representation and entertainment; and professional and management fees decreased significantly during the year under review. As mentioned above, there was a reduction in the interest rate not only for deposit and placement accounts but also in the prime lending rates, this resulted in a decrease of 28% in the interest and charges account. The 23% decrease in the representation account can be attributed in the Company's cost-cutting measure. Likewise, the Company's consultancy agreement was terminated in November 2005.

2005

Consolidated revenues are basically composed of interest income from deposit and placements (69%), commissions and fees (17%), and other income (14%). Interest income increased significantly by 59% compared to last year's figure. Bulk of this interest was from dollar placements which interest rates increased from a range of 2.75% to 3.25% in 2004 to 5.75% in 2005. Aside from the interest income, there was no significant movement in the revenue components.

Consolidated expenses decreased by approximately 17%. The expenses were mainly composed of salaries and wages (25%), interest and charges (22%), representation and entertainment (21%), professional and consultancy fees (9%), unrealized loss from foreign exchange transaction (9%), and other expenses (14%).

The major components of expenses such as salaries and wages, representation and entertainment, professional and consultancy fees, as well as taxes & licenses decreased in the year under review. This in line with the Company's cost-cutting measures to improve its net income.

The Company's major subsidiary incurred an unrealized foreign exchange loss of P3 million compared to its last year's foreign exchange gain of P1.8 million. At the end of 2005, the peso exchange rate stood at P53.06 vis-à-vis the US dollar, appreciating by P3.2790 or approximately 6% in 2005. On the other hand, 2004's exchange rate went up to P56.3410 to a dollar compared to the December 31, 2003's rate of P55.5690.

Interest expense also increased by 16% due to the additional short-term loans obtained from a local bank for the Company's working capital.

In 2005, the Group adopted the various Philippine Financial Reporting Standards (PFRS) and the Philippine Accounting Standards (PAS), which are effective in the Philippines in 2005 and prior years:

Philippine Accounting Standard (PAS) 19, *Employee Benefits*, provides for the accounting for long-term and other employee benefits. The standard requires the projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. The adoption of this standard resulted in a retroactive downward adjustment to retained earnings as of December 31, 2004 and January 1, 2004 amounting to ₱0.43 million and ₱0.46 million, respectively for the Group and ₱0.11 million and ₱0.13 million, respectively for the Parent Company. Net loss decreased by ₱0.03 million in 2004 with a corresponding decrease in liability for the Group and ₱0.02 million for the Parent Company. Additional disclosures required by this standard were included in the financial statements.

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, prohibits the capitalization of foreign exchange losses. The standard also addresses the accounting for transactions in foreign currency and translating the financial statements of foreign operations that are included in those of the reporting enterprise by consolidation, proportionate consolidation and equity method. The adoption of this standard had no material impact on the financial statements.

PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, provides for the required disclosure and presentation in respect of the accounts of banks and similar financial institutions. It also provides that provision for general banking risk is treated as appropriation of surplus and should not be included in the determination of net income for the period. New disclosures were included in the financial statements, where applicable.

PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Group's financial instruments, whether recognized or unrecognized in the financial statements. New disclosures were included in the financial statements, where applicable.

PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring the Group's financial assets and financial liabilities. PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. The Group has reviewed all its outstanding contracts entered into as of December 31, 2005 and 2004 to ascertain if there are derivatives embedded in those contracts. As of the said dates, the Group does not have any embedded derivatives. In addition, the Group does not have any freestanding derivatives as of December 31, 2005 and 2004.

As allowed by SEC, the effect of adopting PAS 32 and PAS 39 did not result in a restatement of prior years' financial statements. Any cumulative effect of adopting these standards, however, was credited to or charged against deficit as of January 1, 2005.

Under PAS 39, in determining whether a financial asset is impaired, reference is made to quoted market rates; in the absence of such quoted market rates, the discounted cash flow method will be used. Prior to January 1, 2005, the adequacy of allowance for credit losses on loans and receivables and risk assets was determined based on management criteria. The effect of adopting PAS 39 provisions on impairment of financial assets did not have a material impact on the financial statements.

PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Group to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. The Group adopted the cost model in accounting for its investment properties.

PFRS 3, *Business Combination*, results in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination is no longer permitted.

The cessation of amortization of goodwill as of January 1, 2004 increased both the carrying value of the goodwill and the surplus and retained earnings by ₱0.76 million.

The following revised standards were also adopted by the Group in 2005:

PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent prohibits the presentation of income from operating activities and extraordinary items as separate line items in statements of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies.

PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omissions or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.

PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.

PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and the disclosures for related parties. It also requires disclosure of the total compensation of key management personnel by benefit types.

PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries are accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting is no longer allowed in the separate financial statements. This standard also requires strict compliance with the adoption of uniform accounting policies and requires the Parent Company to make appropriate adjustments to the subsidiary's financial statements to conform them to the Parent Company's accounting policies for reporting like transactions and other events in similar circumstances.

The adoption of the cost method in accounting for investment in a subsidiary and associate in the separate financial statements resulted in a retroactive downward adjustment to deficit amounting to P126.0 million, representing the Parent Company's equity share on the undistributed earnings of the investees as of December 31, 2003. Net loss in 2004 increased by P41.2 million, representing the net effect of the reversal of equity in net losses amounting to P0.7 million and adjustment on provision for impairment losses in equity investments amounting to P477.7 million in 2004.

PAS 36, *Impairment of Assets*, requires annual impairment test of intangible asset with an indefinite useful life or an intangible asset not yet available for use and goodwill acquired in a business combination, whether or not there is an indication of impairment.

PAS 38, *Intangible Assets*, provides additional clarification on the definition and recognition of certain intangibles. Moreover, this revised accounting standard requires that an intangible asset with an indefinite useful life should not be amortized but will be tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired.

The adoption of the foregoing revised standards did not have a material impact on the Group's financial statements except for PAS 27 as discussed above. Required disclosures were included in the standards, where applicable.

The increasing (decreasing) effects of the transition of PFRS to the 2004 balances of the Group follow:

	December 31, 2004			January 1, 2004	
	Total	Total	Total Stockholders' Equity	Retained Earnings	2004 Net Income
PAS 27 and 28 - Equity investment (P577,132,091)		P-	(P577,132,091)	P-	(P577,132,091)
PAS 19 - Employee benefits	-	605,946	(605,946)	(464,351)	44,757

PFRS 3 - Business combination	763,682	-	763,682	-	763,682
	(P577,132,091)	P605,946	(P576,796,979)	(P464,351)	(P576,323,652)

The reconciliation of the increasing (decreasing) effects of transition to PFRS as they apply to retained earnings (deficit) and stockholders' equity of the Group as of December 31 and January 1, 2004 and the net loss in 2004 follows:

Retained Earnings (deficit) and Stockholders' Equity

	Retained Earnings (Deficit)		Stockholders' Equity	
	December 31, 2004	January 1, 2004	December 31, 2004	January 1, 2004
As previously reported	P41,075,950	P57,060,641	P897,245,698	P913,535,190
PAS 27 and 28 - Equity investments	(571,672,713)	-	(577,132,091)	-
PAS 19 - Employee benefits	(428,570)	(464,351)	(605,946)	(650,704)
PFRS 3 - Business combination	763,682	-	763,682	-
As restated	(P530,261,651)	P56,596,290	P320,271,343	P912,884,486

Net loss

	2004
As previously reported	P16,289,491
PAS 27 and 28 - Equity investments	577,132,091
PAS 19 - Employee benefits	(44,757)
PFRS 3 - Business combination	(763,682)
As restated	P592,613,143

The increasing (decreasing) effects of the transition of PFRS to the 2004 balances of the Parent Company follow:

	December 31, 2004		Total January 1, 2004	2004
	Total Assets	Total Liabilities		
PAS 27 and 28 - Equity investment (P603,662,554)		P- (P603,662,554)	(P125,963,828)	(477,698,726)
PAS 19 - Employee benefits	-	105,676	(105,676)	19,439
	(P603,662,554)	P105,676	(P603,768,230)	(P126,553,293)
				(477,679,287)

The reconciliation of the increasing (decreasing) effects of transition to PFRS as they apply to retained earnings (deficit) and stockholders' equity of the Parent Company as of December 31 and January 1, 2004 and the net loss in 2004 follows:

Retained Earnings (Deficit) and Stockholders' Equity

	Retained Earnings (Deficit)		Stockholders' Equity	
	December 31, 2004	January 1, 2004	December 31, 2004	January 1, 2004
As previously reported	P41,075,954	P57,060,643	P766,574,865	P782,559,555
PAS 19 - Employee benefits	(105,676)	(125,114)	(105,676)	(125,114)
PAS 27 and 28 - Equity investments	(603,662,554)	(125,963,828)	(603,662,554)	(125,963,828)
As restated	(P562,692,276)	(P69,028,299)	P162,806,635	P656,470,613

Net loss

	2004
As previously reported	P15,984,690
PAS 19 - Employee benefits	<u>(19,439)</u>
PAS 27 - Investment in a subsidiary	<u>477,698,726</u>
As restated	<u>P493,663,977</u>

Financial Position

2007

Referring to the balance sheet, there was no significant movement in the total assets amount as at the end of the year under review as compared to last year. Total assets in 2007 were composed mainly of investments in subsidiary and associate (75%), cash (12%), available-for-sale financial assets (7%) and other assets (6%).

The bulk of the consolidated cash account in 2007 was attributable to the Company's subsidiary, MAIC. The 16% decline in the cash account reflected the payments made by MAIC to defray its operating expenses in 2007.

Regarding the loans and receivables account, MAIC grants advances to an affiliate company and additional advances made in 2007 increased the said account by 22% relative to 2006. Medco, on the other hand, receives advances from its affiliate companies to finance its working capital requirements. The increase in the liabilities account, particularly the accounts payable and accrued expenses, resulted from such additional advances obtained by the Company during the year under review.

On February 15, 2006, Cardinal Bancresources, Inc. assigned to MAIC its rights over 3,999,995 shares in Safeharbor Holdings, Inc. Also on the same date, Goldwin Bancshares, Inc. assigned to MAIC its rights over 3,999,995 shares of Outperform Holdings, Inc.. MAIC recorded the acquisition at P7,999,990 and recognized a liability to Lippo China Resources Limited for the funding of these shares under the due to a related party account.

As at December 31, 2007, the total shareholders' fund of the Company amounted to P167 million

2006

With reference to the balance sheets, total assets increased by 25% 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 equivalent accounts. The peso placement (short-term investment) was terminated to fund the acquisition by the Company's subsidiary of equity shares of Exportbank. On the other hand, as a result of the financial quasi reorganization and capital increase of Exportbank as a prelude to the new capital infusion made by the consortium of mostly new investors, the Company's consolidated equity share in Exportbank was reduced from 17.49% to 7.51%.

On the liabilities side, a significant increase of 140% was noted. The Company obtained additional loan and advances for its working capital requirement. The Company's subsidiary also borrowed funds from a related party amounting to P116 million to finance its investment in Exportbank.

As at December 31, 2006, the total shareholders' fund of the Company amounted to P176 million

2005

There was a significant change in the asset composition compared to last year's classification of the accounts due to the adoption and application of the new accounting standards. Assets were

reclassified to conform with the new standards but the bottom line did not change significantly in the comparison of the total consolidated assets vis-à-vis the prior year based on the restated figures. Short-term investment and cash & cash equivalents accounts comprised for the 90% and 84% of total assets for 2005 and 2004, respectively.

Cash in banks and short-term investments include Hong Kong dollar-denominated (HK\$3.0 million) and United States dollar-denominated (US\$ 0.2 million) placements/deposits in local and offshore banks with a peso equivalent of P32.9 million as of December 31, 2005 and P313.5 million. The P300 million placement was reclassified from cash & cash equivalents to short-term investment.

The company's investment in Manila Exposition Complex, Inc., which had been under the Equity investment account was reclassified to Available-for-Sale Investment to conform with the new standards.

As of December 31, 2004, the Group's other assets account pertained mainly to investment in common trust fund with Exportbank amounting to P24 million and investment in shares of stocks amounting to P0.019 million. These investments were reclassified to Available-for-Sale Investment upon adoption of PAS 39.

On the liabilities side, as mentioned above, Medco obtained additional short-term loans from a local bank for its working capital requirement and to partially pay-off its advances from affiliates. This caused the loan payable account to increase to 9%.

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

As at December 31, 2005, the total shareholders' fund of the Company amounted to P189 million

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards (PFRSs) requires the Group to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments 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.

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment losses on loans and receivables

The Group reviews its loans and receivables portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

As of December 31, 2007, loans and receivables of the Group and Parent Company amounted to P4.65 million and P0.02 million, respectively, net of allowance for impairment losses of P40.3 million.

No provision for impairment losses was recognized by the Group in 2007 and 2006.

Impairment losses on AFS financial assets

The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in market price. As of December 31, 2007, AFS investments of the Group and Parent Company are carried at P32.8 million.

No additional impairment loss was recognized by the Group on its available-for-sale financial assets as of December 31, 2007 and 2006.

Deferred tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduced to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets 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 assets was reported in 2007 and 2006 balance sheets (see Note 16 of the Audited Financial Statements)

Present value of retirement obligation

The determination of obligation and retirement cost and other employee benefits is dependent on the selection of certain assumptions used by the Actuaries in calculating such amounts. Those assumptions are described in Note 14 of the Audited Financial Statements and include, among others, discount rates, expected returns on plan assets and salary increase rates and price, and projected dividend yields, risk free interest rate and volatility rate. In accordance with PFRSs, 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 and P1,085,588 respectively in 2007 and 2006; while the net unrecognized actuarial gain is P2,027,410 in 2007 and the net unrecognized actuarial loss is P5,900 in 2006 (see Note 14 of the Audited Financial Statements)

Prospects for 2008

The year 2008 is again expected to be a difficult one for the Company. Inflation will be much higher this year due to the cost-push effects of the world oil price that is anticipated to hover at all-time-high record levels and the runaway world prices of rice and other grains as well as other basic commodities. Aside from the deflationary economic impact of such high inflation, prevailing interest rates are bound to go up as the country's monetary authorities may be inclined to bring up interest rates in order to moderate inflation. The prospect of higher interest rates would normally have been viewed favorably by the Company as it would have a positive effect on its interest revenues. However, such favorable effects, if any, would not be significant this year considering that the cash level of the Company's subsidiary has been reduced substantially. Furthermore, MAIC's new investment in Exportbank equity shares is long term in nature and is not expected to yield any immediate returns in the current year but only in succeeding years.

On the other hand, as we do not anticipate significant movements in the foreign exchange rate for the peso this year, the prospects for earning a foreign exchange gain during this period should be minimal.

With respect to the capital markets, the outlook for the rest of the year remains hazy at this time. Thus, we expect that there will be few opportunities for MAIC to generate revenues from its underwriting and corporate finance activities until perhaps the fourth quarter of 2008.

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. The Company does not also anticipate any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period. 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, 2007 consisted of P59 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.

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.

Please refer to the discussion in the "Results of Operations" and "Financial Position" for the material changes for the years 2005 to 2007.

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

Top Five (5) Performance Indicators December 31, 2007, 2006 and 2005

Top Five (5) Performance Indicators

December 31, 2007, 2006 and 2005

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2007	2006	2005	2007	2006	2005
		1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-20.97%	-30.32%	-103.96%	-45.08%
2. Net Income Growth	$\frac{\text{Net Income Y1-Y0}}{\text{Net Income Y0}}$	-26.35%	181.19%	-98.98%	0.21%	-1795.88%	-103.69%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Ave. Stockholders' Equity}}$	-4.41%	-5.54%	-4.81%	-3.06%	-2.91%	017.%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.32x	0.38x	4.26x	16.09x	24.96x	53.89x
5. Debt-to-Equity- Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	0.73x	.67x	0.44x	0.38x	0.34x	0.019x

Note:

Y1= Current year

Y0= Previous year

Please refer to Prospects for 2008 on page 24 on the Company's plan to improve its key performance indicator.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR THE SECOND QUARTER OF 2008**

Please refer to discussions on the attached SEC Form 17-Q for the second quarter of 2008 (Annex "B")

**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. 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, insurance, 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 financial services including commercial banking and investment banking, securities underwriting and trading.

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.

Since then, 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).

Details of the principal subsidiary and affiliated companies and their activities as at July 22, 2008 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

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.

Since 1998, with the uncertainties in the financial markets and the lack of good underwriting opportunities, MAIC has maintained a very high level of liquidity. The company sought to maximize its average investment yield by diversifying part of its portfolio into government securities and prime commercial papers.

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 still weak capital markets, MAIC remained focused in 2006 in investment in government securities and prime commercial papers, while looking into corporate finance and fee-based services related to financial advisory and merger and acquisition activities. MAIC has no plans of offering or rendering any new services aside from regular investment activities and investment banking services.

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 (BSP), 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 UBI’s and UII’s rehabilitation through a merger with Exportbank. UBI was a commercial bank which was reopened as a result of the agreed merger with Exportbank. The salient provisions of the agreement included the following:

the merger of Exportbank, UBI and UII, with UBI as the surviving entity, where upon the name of UBI was immediately changed to Export and Industry Bank, Inc.;

- a.) the conversion into common shares of the merged bank of P1.2 billion, more or less, of deposits and similar liabilities of UBI and UII equivalent to an average of 10% of total deposits and placements, excluding deposits and placements of UBI’s three major depositors/creditors and bills payable to financial institutions: and
- b.) repayment and servicing within three years of the balance of said deposits and similar liabilities of UBI and UII (excluding the deposits and placements of the three major depositors/creditors and bills payable to financial institutions).

The rehabilitation plan and proposed merger of Exportbank, UBI and UII, was approved by the Philippine Deposit Insurance Corporation (PDIC) and BSP on July 9, 2001 and July 12, 2001, respectively. The Plan of Merger and Articles of Merger of Exportbank and UBI/UII were approved by

the BSP and Securities and Exchange Commission on January 30 and 31, 2002, respectively. The merger took effect on February 1, 2002, after which the Company's interest in Exportbank has decreased from 29.83% to 17.49%.

On October 1, 2003, Exportbank 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 UBI shares as approved by the PSE. Shares formerly traded with stock symbol URB are now traded under the new stock symbol EIB.

In the second semester of 2005, major stockholders infused additional equity amounting to P625 million to further strengthen the capital base of the Corporation. This was initially taken up as deposit for stock subscription, pending approval by the Securities and Exchange Commission of its application to increase its authorized capital stock.

On May 25, 2005, the Board of Directors of PDIC approved the grant of further rehabilitation assistance to Exportbank, which was formalized through the Memorandum of Agreement dated December 29, 2005 (the "Agreement") and anchored on the sale to PDIC or a third party buyer of a pool of assets consisting of UBI and UII 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 requirement for a new capital infusion of Php3.0 Billion in Exportbank by its stockholders and the provision by PDIC of 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 said asset pool and (b) a ten-year subordinated debt amounting to Php2.0 Billion qualified as tier 2 capital. On May 26, 2005, the BSP likewise approved the grant of said rehabilitation assistance and certain regulatory relief, such as, among others, (1) the staged booking of the write off of deferred income tax and goodwill accounts totaling Php1.8 Billion over 10 years; (2) the staggered booking of the write-off of taxes and other related expenses totaling to Php719.9 Million in connection with the sale of aforementioned NPAs and the dacion of certain Exportbank Plaza units to PDIC over 15 years, 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.

At the end of April 2006, a further capital infusion of Php2.375 Billion was made by existing and new stockholders in Exportbank. The total additional capital infusion of Php3.0 Billion was primarily aimed at strengthening the bank's capital base to meet the new requirements of the PAS 39 and other new international accounting standards that were being implemented by the BSP.

The sale of the UBI/UII NPAs has enabled the bank to significantly reduce its NPA ratio to near zero. With the said NPA sale as well as the completion of the abovementioned new capital infusion and grant of rehabilitation assistance, Exportbank has attained a stronger statement of condition and a risk-based adequacy ratio well within the BSP prescribed level for commercial banks, and has thereby gained a strong financial footing that will ensure its profitability, stability and viability in the long term.

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, staff, subsidiaries and affiliates and their respective directors, officers and staff 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**

(1) Market Information

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

The high and low price for the first quarter of 2008 were as follows:

<u>1st Quarter</u>		<u>2nd Quarter</u>	
<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
P 0.58	P0.33	0.39	P0.38

The high and low prices for each quarter of 2007 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>
P0.80	P0.245	P 0.80	P0.33	P0.68	P0.32	P0.60	P0.37

The high and low prices for each quarter of 2006 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>
P0.245	P0.245	P 0.205	P0.205	P0.23	P0.23	P0.26	P0.26

The high and low prices for each quarter of 2005 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>
P0.75	P0.25	P 0.36	P0.21	P0.34	P0.21	P0.42	P0.30

As at July 22 2008, the closing price of ₱0.36 per share on July 21, 2008 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 22 July 2008, there were 692 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 22 July 2008

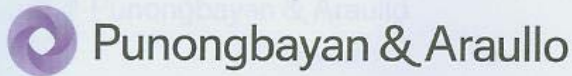
RANK	NAME	Nationality	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
1	Citinvest Asia Limited	Foreign	322,314,874	46.0450%
2	PCD Nominee Corporation-Filipino	Filipino	107,981,154	15.4259%
3	PCD Nominee Corporation-Non-Filipino	Foreign	87,064,012	12.4377%
4	Clariwealth Investment Limited	Foreign	34,500,000	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	2,300,000	0.3286%
10	Lippo Sec., Inc. FAO Shen Kuo Hsu	Foreign	1,600,000	0.2286%
11	Rexlon Gatchalian	Filipino	1,000,000	0.1429%
12	Rodrigo, Raul	Filipino	1,000,000	0.1429%
13	Lee, Kwok Fai Davy	Foreign	672,900	0.0961%
14	Ng, Ka Kit	Foreign	662,990	0.0947%
15	Chua, Andy &/or Gemma	Filipino	420,000	0.0600%
16	Lo, Eduardo	Filipino	394,000	0.0563%
17	Cordova, Lawrence	Filipino	350,000	0.0500%
18	Belson Sec., Inc. A/C #196-358	Filipino	300,000	0.0429%
19	Luk, Millie	Foreign	236,000	0.0337%
20	Marita Ibardolaza	Filipino	100,000	0.0143%

(3) Dividends

No cash dividends have been declared by the Company on its common stock for the last 9 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.



Report of Independent Auditors

The Board of Directors and the Stockholders
Medco Holdings, Inc.
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We have audited the accompanying consolidated financial statements of Medco Holdings, Inc. and Subsidiary (the Group) and the financial statements of Medco Holdings, Inc., (the Parent Company) which comprise the balance sheets as at December 31, 2007 and 2006, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes. The financial statements of the Group and the Parent Company for the year ended December 31, 2005 were audited by other auditors whose report dated May 17, 2006, expressed an unqualified opinion on those statements.

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. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 whether the financial statements are free from material misstatement.

Certified Public Accountants
 Member of Grant Thornton International Ltd
 Offices in Cebu, Davao, Cavite
 BOA/PRC Cert. of Reg. No. 0002
 SEC Accreditation No. 0002-F



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.


Opinion


In our opinion, the 2007 and 2006 financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company, Inc. as of December 31, 2007 and 2006, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of a Matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements which indicates that the Company incurred net losses of P12,556,124, P16,939,925 and P6,024,413 for the years ended December 31, 2007, 2006 and 2005, respectively, and has deficit of P558,892,131, P549,837,203 and P536,498,232 as of December 31, 2007, 2006 and 2005, respectively, as a result of recurring losses arising from business operations. Although the Company has incurred net losses and has deficit for the years ended December 31, 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.

PUNONGBAYAN & ARAULLO


By: **Benjamin P. Valdez**
Partner
CPA Reg. No. 0028485
TIN 136-619-880
PTR No. 0986653, January 4, 2008, Makati City
SEC Accreditation No. 0009-AR-1
BIR AN 08-002511-11-2005 (Dec. 27, 2005 to 2008)



April 11, 2008

MEDCO HOLDINGS, INC. AND SUSIDIARY
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	Group		Parent Company	
		2007	2006	2007	2006
<u>ASSETS</u>					
Cash	6	P59,186,798	P70,344,503	P2,059,293	P505,470
Available-for-sale financial assets - net	7	32,809,061	31,311,533	31,268,750	31,268,750
Loans and receivables - net	8	4,654,589	3,806,021	20,409	27,600
Investment in subsidiary and associate - net	9	374,071,390	366,071,400	199,995,929	199,995,929
Other assets - net	10	26,226,312	25,776,390	916,338	956,747
Total Assets		<u>P496,948,150</u>	<u>P497,309,846</u>	<u>P234,260,719</u>	<u>P232,754,496</u>
<u>LIABILITIES AND EQUITY</u>					
Interest-bearing loans and borrowings	11	P67,423,681	P67,423,681	P67,423,681	P67,423,681
Accounts payable and accrued expenses	15	23,655,747	18,879,906	19,816,112	15,930,804
Due to related party	12	121,283,907	113,699,271	-	-
Total Liabilities		212,363,335	200,002,858	87,239,793	83,354,485
Capital stock		700,000,000	700,000,000	700,000,000	700,000,000
Additional paid-in capital		25,498,912	25,498,912	25,498,912	25,498,912
Deficit		(558,892,131)	(549,837,203)	(578,477,997)	(576,098,912)
Total Equity Attributable to Equityholders of the Parent Company		166,606,781	175,661,709	147,020,915	149,400,000
Minority interest		117,978,034	121,645,280	-	-
Total Equity		284,584,815	297,306,989	147,020,915	149,400,000
Total Liabilities and Equity		<u>P496,948,150</u>	<u>P497,309,847</u>	<u>P234,260,708</u>	<u>P232,754,485</u>

See Notes to Financial Statements.

MEDCO HOLDINGS, INC. AND SUBSIDIARY
INCOME STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippines Pesos)

REVENUES	Notes	Group			Parent Company		
		2007	2006	2005	2007	2006	2005
Dividend income		P6,000,000	P3,000,000	P3,000,000	P6,000,000	P3,000,000	P3,000,000
Commission and fees		3,600,547	4,179,798	4,292,086	-	638,182	850,909
Interest income		3,582,435	8,983,277	17,214,778	14,391	4,035	6,017
Other revenues		518,333	1,175,063	374,945	517,753	-	-
		<u>13,701,315</u>	<u>17,338,138</u>	<u>24,881,809</u>	<u>6,532,144</u>	<u>3,642,217</u>	<u>3,856,926</u>
EXPENSES							
Employee benefits	14	8,027,332	10,038,244	8,274,414	2,054,997	2,157,976	556,952
Interest and bank charges		4,353,500	5,207,891	7,230,748	4,353,500	5,207,891	7,230,748
Foreign exchange losses – net		3,439,993	2,850,798	2,883,450	9,369	4,771	4,526
Entertainment, amusement and recreation		2,915,734	4,842,792	6,260,051	-	-	-
Professional and management fees		1,800,002	2,092,549	2,912,926	434,179	439,746	1,201,334
Occupancy and equipment-related expenses	15, 19	1,298,989	1,297,293	1,305,738	312,000	312,000	312,000
Taxes and licenses		1,200,233	2,370,224	1,094,600	361,181	364,203	8,209
Recovery from impairment losses		-	-	(469,381)	-	-	-
Other expenses		2,682,689	4,009,901	3,445,879	1,383,125	1,938,637	1,165,979
		<u>25,718,472</u>	<u>32,709,692</u>	<u>32,938,425</u>	<u>8,908,351</u>	<u>10,425,224</u>	<u>10,479,748</u>
LOSS BEFORE TAX							
		12,017,157	15,371,554	8,056,616	2,376,207	6,783,007	6,622,822
TAX EXPENSE (INCOME)							
	16	538,967	1,568,371	(2,032,203)	2,878	807	-
NET LOSS							
		<u>12,556,124</u>	<u>16,939,925</u>	<u>6,024,413</u>	<u>2,379,085</u>	<u>6,783,814</u>	<u>6,622,822</u>
Attributable to:							
Equityholders of the Parent Company		8,947,753	13,338,971	6,236,585	2,379,085	6,783,814	6,622,822
Minority interest		3,608,371	3,600,954	(212,172)	-	-	-
		<u>P12,556,124</u>	<u>P16,939,925</u>	<u>P6,024,413</u>	<u>P2,379,085</u>	<u>P6,783,814</u>	<u>P6,622,822</u>
Loss per share		P0.018	P0.024	P0.009	P0.003	P0.010	P0.009

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippine Pesos)

	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
Capital Stock – P1 par value, Authorized, issued and outstanding – 700,000,000 shares	P700,000,000	P700,000,000	P700,000,000	P700,000,000	P700,000,000	P700,000,000
Additional Paid-In Capital	25,498,912	25,498,912	25,498,912	25,498,912	25,498,912	25,498,912
Deficit						
Balances at beginning of year	(549,837,203)	(536,498,232)	(530,261,647)	(576,098,912)	(569,315,098)	(562,692,276)
Net loss	(8,947,753)	(13,338,971)	(6,236,585)	(2,379,085)	(6,783,814)	(6,622,822)
Fair value losses	(107,175)	-	-	-	-	-
Balance at end of year	(558,892,131)	(549,837,203)	(536,498,232)	(578,477,997)	(576,098,912)	(569,315,098)
Total Equity Attributable to Equity holders of the Parent Company	166,606,781	175,661,709	189,000,680	147,020,915	149,400,000	156,183,814
MINORITY INTEREST						
Balance at beginning of year	121,645,280	125,246,234	125,034,078	-	-	-
Share in fair value losses	(58,875)	-	-	-	-	-
Share in net loss	(3,608,371)	(3,600,954)	212,156	-	-	-
Balances at end of year	117,978,034	121,645,280	125,246,234	-	-	-
Total Equity	<u>P284,584,815</u>	<u>P297,306,989</u>	<u>P314,246,914</u>	<u>P147,020,915</u>	<u>P149,400,000</u>	<u>P156,183,814</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippine Pesos)

	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before income tax	(12,017,157)	(15,371,555)	(8,056,616)	(2,376,207)	(6,782,996)	(6,622,822)
Adjustments for:						
Interest income	(3,582,435)	(8,983,277)	-	-	-	-
Interest expense	4,353,500	5,207,891	-	4,353,500	5,207,891	-
Unrealized foreign exchange loss (gain)	3,439,994	2,850,798	3,075,155	(9,369)	4,771	3,818
Gain on sale of long-term marketable securities	-	(529,517)	-	-	-	-
Depreciation and amortization	84,000	38,001	30,014	-	-	-
Recovery from impairment losses	-	-	(469,381)	-	-	-
Operating income (loss) before working capital changes	(7,722,098)	(16,787,659)	(5,420,828)	1,967,924	(1,570,334)	(6,619,004)
Decrease (increase) in loans and receivables	(848,570)	531,144	2,766,164	7,191	34,325	243,590
Increase (decrease) in other assets	(533,922)	556,643	(20,614,514)	40,409	(357,732)	1,428,952
Increase (decrease) in accounts payable and accrued expenses	4,775,841	(2,237,593)	5,096,293	3,885,308	6,618,319	5,684,284
Cash generated from (used in) operations	(4,328,748)	(17,937,465)	(20,778,046)	5,900,832	4,724,578	737,822
Cash paid for income taxes	(538,967)	(1,568,371)	(555,230)	(2,878)	(807)	-
Net cash from (used in) operating activities	(4,867,715)	(19,505,836)	(21,333,276)	5,897,954	4,723,771	737,822

CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	3,582,435	8,983,277	-	-	-	-
Net increase in investments in subsidiary and associate	(7,999,990)	(366,071,400)	-	-	-	-
Net decrease (increase) in available-for-sale financial assets	(1,663,576)	479,518	-	-	-	-
Net decrease (increase) in short-term investments	-	300,000,000	(300,000,000)	-	-	-
Investment in common trust fund	-	-	24,078,628	-	-	-
Addition to property and equipment	-	(45,863)	(17,490)	-	-	-
Net cash used in investing activities	<u>(6,081,131)</u>	<u>(56,654,468)</u>	<u>(275,938,862)</u>	-	-	-
CASH FLOWS FINANCING ACTIVITIES						
Interest paid	(4,353,500)	(5,207,891)	-	(4,353,500)	(5,207,891)	-
Increase in due to a related party	7,584,635	-	-	-	-	-
Proceeds from loan availments	-	119,565,021	-	-	-	-
Net cash from financing activities	<u>3,231,135</u>	<u>114,357,130</u>	-	(4,353,500)	(5,207,891)	-
Effects of exchange rate changes in cash	<u>(3,439,994)</u>	<u>(2,850,798)</u>	<u>(3,075,155)</u>	<u>9,369</u>	<u>(4,771)</u>	<u>(3,818)</u>
Net increase (decrease) in cash	(11,157,705)	35,346,028	(300,347,293)	1,553,823	(488,891)	734,004
Cash at beginning of year	<u>70,344,503</u>	<u>34,998,475</u>	<u>335,345,768</u>	<u>505,470</u>	<u>994,361</u>	<u>260,357</u>
Cash at end of year	<u>59,186,798</u>	<u>70,344,503</u>	<u>34,998,475</u>	<u>2,059,293</u>	<u>505,470</u>	<u>994,361</u>

Supplemental Information on Noncash Investing and Financing Activities

On February 15, 2006, Cardinal Bancresources assigned the Subsidiary its rights over 3,999,995 shares of Safeharbour Holdings, Inc. Market value of these stocks amounted to P3,999,995 on the date of assignment. As of December 31, 2007, the Subsidiary has paid 25% of the subscription.

On that same date, Goldwin Bancshares, Inc, assigned to the Subsidiary its rights over 3,999,995 shares of Outperform Holdings, Inc. Market value of these stocks amounted to P3,999,995 on the date of assignment. As of December 31, 2007, the Subsidiary has paid 25% of the subscription.

MEDCO HOLDINGS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(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 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 Approval of Financial Statements

The consolidated financial statements of the Group and the financial statement of the Parent Company for the year ended December 31, 2007 and 2006 (including the comparatives for the years ended December 31, 2005) were authorized for issue by the Board of Directors (BOD) on April 11, 2008.

1.3 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 P12,556,124, P16,939,925 and P6,024,413 for the years ended December 31, 2007, 2006 and 2005, respectively, and has deficit of P558,892,131, P549,837,203 and P536,498,232 as of December 31, 2007, 2006 and 2005, respectively, as a result of recurring losses arising from business operations. Although the Company has incurred net losses and has deficit for the years ended December 31, 2007, 2006 and 2005, 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 Derivatives Philippine Interpretation
IFRIC 10	:	Interim Financial Reporting and Impairment

(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

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 2007 and 2006 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 December 31, 2007 and 2006, 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 operations amounted to P1,078,269 in 2007, P1,259,292 in 2006, and P1,064,586 in 2005 (see Note 19).

(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 P4,937 and P30,784 as of December 31, 2007 and 2006, 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 in 2007 and 2006.

(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 December 31, 2007 and 2006.

(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 in the 2007 and 2006 balance sheets (see Note 16).

(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 December 31, 2007 and 2006.

(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 and P1,085,588, respectively, in 2007 and 2006; while the net unrecognized actuarial gain is P2,027,410 in 2007 and the net unrecognized actuarial loss is P5,900 in 2006 (see Note 14).

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.

As of December 31, 2007, the Company's short-term exposure on foreign currency denominated financial assets, translated into Philippine pesos at the closing rate, follows:

	<u>Group</u>		<u>Parent</u>	
	<u>US Dollar</u>	<u>Hong Kong Dollar</u>	<u>US Dollar</u>	<u>Hong Kong Dollar</u>
Short-term exposure	<u>P 6,270,253</u>	<u>P 11,251,317</u>	<u>P 50,408</u>	<u>P -</u>

The Group's financial assets and liabilities are tested on a reasonably possible +/- 20.7% change of the Philippine peso/U.S. dollar exchange rate for the year ended December 31, 2007, and a +/- 21.0% change of the Philippine peso/Hong Kong dollar exchange rate for the year ended December 31, 2007. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date with effect estimated from the beginning of the year.

At the December 31, 2007, if the Philippine peso were to strengthen or weaken against the US dollar and Hong Kong dollar, it would impact net results for the coming year by +/- P2,381,397.

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.

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 December 31, 2007 and 2006, 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.

Short-term investments and loans payable with floating interest rates are tested on a reasonably possible change of +/- 240 basis points (bps) for 2007 with effect from the beginning of the year. This change is considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

If interest rates were to move to a more reasonably possible change of +/- 240 basis points at December 31, 2007, with all variables held constant, net loss for the year would be higher or lower by P1,020,471.

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 December 31, 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>	<u>Parent Company</u>
Cash	6	P 59,186,798	P 2,059,293
Loans and receivables	8	4,654,589	20,409
Other assets	10	<u>21,411,456</u>	<u>916,338</u>
		<u>P 85,252,843</u>	<u>P 2,996,040</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>Group</u>		<u>Parent Company</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Total liabilities	P 212,363,335	P 200,002,858	P 87,239,793	P 83,354,485
Total equity	284,584,815	297,306,989	147,020,926	149,400,011
Debt-to-equity ratio	<u>0.73 : 1</u>	<u>0.67 : 1</u>	<u>0.59 : 1</u>	<u>0.56 : 1</u>

The Company has honored its covenant obligations, including maintaining the required debt-to-equity ratio for both years. The ratio-increase in 2007 is the result of additional advances received from its affiliates in 2007 and the decrease in equity due to the reported 2007 net loss.

6. CASH

This account consists of:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Short-term placements	P 40,120,577	P 48,613,771	P -	P -
Cash in banks	19,058,221	21,722,732	2,059,293	505,470
Petty cash fund	8,000	8,000	-	-
	<u>P 59,186,798</u>	<u>P 70,344,503</u>	<u>P 2,059,293</u>	<u>P 505,470</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 3.50% to 5.25% in 2007 and 4.63% to 6.38% in 2006.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As of December 31, the available-for-sale financial assets, net of accumulated discount, consist of:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Shares of stocks	P 77,766,278	P 76,268,750	P 76,268,750	P 76,268,750
Private bonds	42,783	42,783	-	-
	77,809,061	76,311,533	76,268,750	76,268,750
Allowance for impairment	(45,000,000)	(45,000,000)	(45,000,000)	(45,000,000)
	<u>P 32,809,061</u>	<u>P 31,311,533</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

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 2007 and 2006. 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:

	Note	Group		Parent Company	
		2007	2006	2007	2006
Loans	15.2	P 41,539,669	P 41,546,760	P 40,331,409	P 40,338,500
Accounts receivable		3,020,142	2,177,947	-	-
Other receivables		407,778	394,314	2,000	2,100
		44,967,589	44,119,021	40,333,409	40,340,600
Allowance for impairment losses		(40,313,000)	(40,313,000)	(40,313,000)	(40,313,000)
		<u>P 4,654,589</u>	<u>P 3,806,021</u>	<u>P 20,409</u>	<u>P 27,600</u>

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	
	2007	2006	2007	2006
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)	-	-	199,995,912	199,995,912
	844,452,250	844,452,250	678,376,763	678,376,763
Accumulated equity in net earnings (losses)	(478,380,850)	(478,380,850)	-	-
Allowance for impairment losses	-	-	(478,380,834)	(478,380,834)
	<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	-	-	-
Goldwin Bancshares, Inc.	3,999,995	-	-	-
	7,999,990	-	-	-
	<u>P 374,071,390</u>	<u>P 366,071,400</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. Market values of Class A shares held by the Subsidiary amount to P8,094,000 as of December 31, 2007.

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 December 31, 2007 and 2006. EIB's Class B shares are not traded at the stock exchange.

Financial information of EIB follows (amount in thousands):

	<u>2007</u>	<u>2006</u> As Restated
Assets	P 38,150,149	P 34,173,227
Liabilities	32,659,862	28,897,013
Equity	5,490,287	5,276,214
Net income for the year	201,697	140,461

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	<u>Group</u>		<u>Parent Company</u>	
		<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Bank placements		P 19,108,347	P 19,108,347	P -	P -
Goodwill		4,814,856	4,814,856	-	-
Creditable withholding tax		1,032,353	516,177	-	-
Prepayments		764,089	865,937	524,630	626,478
Miscellaneous	15.1	<u>506,667</u>	<u>471,073</u>	<u>391,708</u>	<u>330,269</u>
		<u>P 26,226,312</u>	<u>P 25,776,390</u>	<u>P 916,338</u>	<u>P 956,747</u>

Bank placements consist of placements with various banks, with maturities expected to extend beyond one year. The annual effective interest rates of such bank placements are 3.5% in both 2007 and 2006.

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 expense includes the balance of property and equipment of the Subsidiary with net book value of P4,937 and P30,784 as of December 31, 2007 and 2006, 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 6.30% to 8.00% per annum in 2007 and 2006. 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 year amounted to P121,283,907 in 2007 and P113,699,271 in 2006.

13. MATURITY PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	Group					
	2007			2006		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash	P 59,186,798	P -	P 59,186,798	P 70,344,503	P -	P 70,344,503
AFS financial assets	-	32,809,061	32,809,061	-	31,311,533	31,311,533
Loans and receivables (at gross)						
Loans	43,864,253	-	43,864,253	42,770,447	-	42,770,447
Trade and other receivables	1,973,661	-	1,973,661	1,706,538	-	1,706,538
Accrued interest receivable	162,028	-	162,028	158,213	-	158,213
Other assets - other investments	-	57,993,740	57,993,740	-	64,552,373	64,552,373
	<u>105,186,740</u>	<u>90,802,801</u>	<u>195,989,541</u>	<u>114,979,701</u>	<u>95,863,906</u>	<u>210,843,607</u>

Financial Liabilities:						
Interest-bearing loans and borrowings	P 67,423,681	P -	P 67,423,681	P 67,423,681	P -	P 67,423,681
Accounts payable and accrued expenses						
Due to affiliates	130,021,446	-	130,021,446	120,622,173	-	120,622,173
Accounts payable	2,495,607	-	2,495,607	1,503,025	-	1,503,025
Interest payable	-	1,484,106	1,484,106	-	1,484,106	1,484,106
Other liabilities	9,274,467	-	9,274,467	6,469,873	-	6,469,873
	<u>141,791,520</u>	<u>1,484,106</u>	<u>143,275,626</u>	<u>128,595,071</u>	<u>1,484,106</u>	<u>130,079,177</u>
	<u>P 209,215,201</u>	<u>P 1,484,106</u>	<u>P 210,699,307</u>	<u>P 196,018,052</u>	<u>P 1,484,106</u>	<u>P 197,502,858</u>

	Parent Company					
	2007			2006		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash	P 2,059,293	P -	P 2,059,293	P 505,470	P -	P 505,470
AFS financial assets	-	31,268,750	31,268,750	-	31,268,750	31,268,750
Loans and receivables (at gross)						
Loans	40,331,409	-	40,331,409	40,338,500	-	40,338,500
Trade and other receivables	2,000	-	2,000	2,100	-	2,100
	<u>P 42,392,702</u>	<u>P 31,268,750</u>	<u>P 73,661,452</u>	<u>P 40,846,070</u>	<u>P 31,268,750</u>	<u>P 72,114,820</u>

Financial Liabilities:						
Interest-bearing loans and borrowings	P 67,423,681	P -	P 67,423,681	P 71,523,681	P -	P 71,523,681
Accounts payable and accrued expenses						
Due to affiliates	8,737,539	-	8,737,539	6,922,902	-	6,922,902
Other liabilities	11,078,573	-	11,078,573	4,468,147	-	4,468,147
	<u>19,816,112</u>	<u>-</u>	<u>19,816,112</u>	<u>11,391,049</u>	<u>-</u>	<u>11,391,049</u>
	<u>P 87,239,793</u>	<u>P -</u>	<u>P 87,239,793</u>	<u>P 82,914,730</u>	<u>P -</u>	<u>P 82,914,730</u>

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits are presented below.

	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
Salaries and wages	P 7,374,930	P 9,466,375	P 7,208,008	P 1,950,000	P 2,034,415	P 402,936
Retirement benefits	294,996	196,752	464,600	37,691	44,322	104,659
Social security costs	151,855	124,525	127,497	38,360	32,716	32,382
Short-term medical benefits	74,254	127,888	147,500	10,500	8,725	7,900
Other benefits	131,297	122,704	326,809	18,446	37,798	9,075
	<u>P 8,027,332</u>	<u>P 10,038,244</u>	<u>P 8,274,414</u>	<u>P 2,054,997</u>	<u>P 2,157,976</u>	<u>P 556,952</u>

14.2 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:

	2007	2006
Present value of obligation, beginning	P 2,018,383	P 2,360,100
Current service cost	89,891	90,842
Interest cost	167,294	105,910
Unrecognized actuarial loss	1,132,426	-
Other income – retirement	-	(538,469)
Present value of obligation, ending	<u>P 3,407,994</u>	<u>P 2,018,383</u>

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

	2007	2006
Present value of unfunded obligation	P 3,407,994	P 2,018,383
Unrecognized actuarial (gain) loss	(2,027,410)	5,900
Other income - retirement	-	(938,695)
Retirement benefit obligation	<u>P 1,380,584</u>	<u>P 1,085,588</u>

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

The retirement expense included in Employee Benefits in the consolidated income statements are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current service cost	P 89,891	P 90,842	P 226,900
Interest cost	167,294	105,910	239,000
Actuarial gain recognized during the year	<u>37,811</u>	<u>-</u>	<u>(1,300)</u>
Retirement benefit expense	<u>P 294,996</u>	<u>P 196,752</u>	<u>P 464,600</u>

The movements in the retirement benefit obligation recognized in the books are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of year	P 1,085,588	P 888,836	P 1,901,400
Expense recognized	<u>294,996</u>	<u>196,752</u>	<u>464,600</u>
Balance at end of year	<u>P 1,380,584</u>	<u>P 1,085,588</u>	<u>P 2,366,000</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Discount rates	7.75%	7.75%	13.98%
Expected rate of salary increases	5%	5%	6%

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. Annual rental of P766,269 and P765,129 in 2007 and 2006, respectively, is shown as part of Occupancy and Equipment-Related Expenses in the income statements. Related rental deposits amount to P239,459 for both 2007 and 2006 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 P2,290,368 and P1,223,687 as of December 31, 2007 and 2006, respectively (see Note 8).
- (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 December 31, 2007 and 2006 amounted to P4,460,041 and P4,037,269, respectively, for LSI and P729,973 and P2,885,633, 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 2007 amount to P121,283,907 and P113,699,271 in 2006. These advances were made to fund pre-operating expenses of newly created companies of LCR (see also Note 12).

15.3 Others

The Group has bank deposits and investments in short-term money placements with EIB. Bank deposits amounted to P240,081 in 2007 and P483,426 in 2006. Short-term money placements and time deposits amounting to P300,179,916 were terminated in 2006.

15.4 Key Management and Personnel Compensations

The Company's compensation and benefits provided to its key management personnel amounted to P1,826,500 in 2007 and P1,834,250 in 2006 and are presented as part of the salaries and employee benefits in the income statements.

16. INCOME TAXES

16.1 Current and Deferred Taxes

The major components of tax expense (income) for the years ended December 31 are as follows:

	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
Income statements:						
Current tax:						
Final tax (at 20%)	P 538,967	P 1,568,371	P 3,607,020	P 2,878	P 807	P -
Deferred tax relating to origination and reversal of temporary differences	-	-	(5,639,223)	-	-	-
Tax expense (income) reported in the income statement	<u>P 538,967</u>	<u>P 1,568,371</u>	<u>(P 2,032,203)</u>	<u>P 2,878</u>	<u>P 807</u>	<u>P -</u>

The reconciliation of tax on pretax loss for 2007 and 2006 computed at the applicable statutory rates to tax expense attributable to continuing operations is as follows:

	Group		Parent Company	
	2007	2006	2007	2006
Tax on pretax loss at 35%	(P 4,206,006)	(P 5,380,044)	(P 831,674)	(P 2,374,049)
Income subject to lower income tax rate	1,493,883	(1,219,857)	2,158	(605)
Tax effects of:				
Unrecognized deferred tax assets	4,129,140	6,973,589	2,707,226	3,083,317
Nondeductible expenses	1,221,950	2,432,738	229,484	342,144
Non-taxable income	(2,100,000)	(1,238,055)	(2,100,000)	(1,050,000)
Tax expense reported in the income statements	<u>P 538,967</u>	<u>P 1,568,371</u>	<u>P 2,878</u>	<u>P 807</u>

As discussed in Note 3.2, the Parent Company derecognized the balance of deferred tax assets as of January 1, 2006 of P18,811,689 against the related valuation allowance of P18,811,689, and did not recognize any deferred tax assets relating to temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as of December 31, 2007 and 2006. The net deferred tax assets relating to temporary differences that were not recognized by the Parent Company as of December 31, 2007 and 2006 are summarized below:

	2007		2006	
	Amount	Tax Effect	Amount	Tax Effect
Net operating loss carry-over (NOLCO)	P 7,670,333	P 2,705,617	P 8,808,524	P 3,082,983
Unrealized foreign currency losses – net		4,598	1,609	953
	<u>P 7,674,931</u>	<u>P 2,707,226</u>	<u>P 8,808,977</u>	<u>P 3,083,317</u>

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>	

16.2 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 year ended December 31, 2007, 2006, and 2005 follows:

	<u>2007</u>		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
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	<u>(P 10,177,039)</u>	<u>(P 2,379,085)</u>	(12,556,124)
Minority interest in net losses of a subsidiary			<u>3,608,371</u>
Net loss			<u>(P 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>

	2006		
	Investment Banking	Others	Total
Income:			
Dividend income	P -	P 3,000,000	P 3,000,000
Commission and fees	3,541,617	638,182	4,179,799
Interest income	8,979,242	4,035	8,983,277
Other income – net	<u>1,175,063</u>	<u>-</u>	<u>1,175,063</u>
Gross income	10,849,801	3,642,217	17,338,138
Expenses	<u>19,438,452</u>	<u>-</u>	<u>32,709,692</u>
Loss before income tax	(8,588,559)	(6,782,996)	(15,371,554)
Income tax expense	(<u>1,567,564</u>)	(<u>807</u>)	(<u>1,568,371</u>)
Operating loss	<u>(P 10,156,123)</u>	<u>(P 6,783,803)</u>	(16,939,925)
Minority interest in net losses of a subsidiary			<u>3,600,954</u>
Net loss			<u>(P 13,338,971)</u>
Segment assets	<u>P 259,740,495</u>	<u>P 232,754,496</u>	P 492,494,991
Goodwill			<u>4,814,856</u>
Total assets			<u>P 497,309,847</u>
Segment liabilities	<u>P 116,648,373</u>	<u>P 83,354,485</u>	<u>P 200,002,858</u>
	2005		
	Investment Banking	Others	Total
Income:			
Dividend income	P -	P 3,000,000	P 3,000,000
Commission and fees	3,441,177	850,909	4,292,086
Interest income	17,208,761	6,017	17,214,778
Other income – net	<u>374,945</u>	<u>-</u>	<u>374,945</u>
Gross income	21,024,883	3,856,926	24,881,809
Expenses (Income)	<u>22,458,677</u>	<u>10,479,748</u>	<u>32,938,425</u>
Loss before income tax	(1,433,844)	(6,622,822)	(8,056,616)
Income tax benefit	<u>2,032,203</u>	<u>-</u>	<u>2,032,203</u>
Operating loss	<u>P 598,309</u>	<u>(P 6,622,822)</u>	(6,024,413)
Minority interest in net income of a subsidiary			<u>(212,172)</u>
Net loss			<u>(P 6,236,585)</u>
Segment assets	<u>P 163,144,173</u>	<u>P 232,919,980</u>	P 397,564,153
Goodwill			<u>4,814,856</u>
Total assets			<u>P 597,560,065</u>
Segment liabilities	<u>P 6,581,057</u>	<u>P 76,736,166</u>	<u>P 83,317,223</u>

18. LOSS PER SHARE

Loss per share amounts for the years ended December 31, 2007, 2006 and 2005 is computed as follows (in thousands except loss per share amounts):

	<u>Consolidated</u>			<u>Parent Company</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net loss	P12,556,124	P16,939,925	P 6,024,413	P 2,379,085	P 6,783,803	P 6,622,822
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 0.018</u>	<u>P 0.024</u>	<u>P 0.009</u>	<u>P 0.003</u>	<u>P 0.009</u>	<u>P 0.009</u>

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 annual rental charged to operations amounted to P1,078,269 in 2007, P1,259,292 in 2006, and P1,064,586 in 2005 in the consolidated financial statements, and P312,000 in 2007, 2006, and 2005 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 December 31, 2007 and 2006 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 December 31, 2007, 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.

COVER SHEET

Annex "B"

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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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Amended Articles
Number/Section

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Total No. of Stockholders

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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 June 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</u> <u>outstanding and amount debt</u>
<u>Common</u>	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-Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2008 declined by 18.82% compared to last year's second quarter figure. During the quarter under review, revenues consisted of fees and other commissions (33%), unrealized foreign exchange gain (27%), dividend income (17%), interest income from short-term placements (17%), and other income (6%).

The unrealized foreign exchange gain amounting to P1.3 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 second quarter of 2008 went up to P5.7370 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 P1.3 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 30% compared to the previous year's second quarter. The expenses for this quarter were composed of salaries and wages (34%), interest expense (21%), representation & entertainment (15%), professional fees (9%) and other expenses (21%).

The major components of expenses decreased substantially in the quarter under review compared to last year's comparative period. Salaries & wages decreased by 27%, representation & entertainment went down by 41%, and interest expense declined by 17%. 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 second 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.

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, 2008 consisted of P53 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.

2007-Second Quarter Financial Highlights

Consolidated revenues for the first two quarters of 2007 decreased by 29.89% relative to last year's comparable period. During the period under review, the revenue account mainly consisted of fees and other commissions (27%), interest income from short-term placements (22%), and other income (51%). On the other hand, last year's revenue account for the comparable period was composed of interest income from short-term placements (57%), fees and other commissions (24%), and other income (19%).

The decrease in the consolidated revenues was mainly due to the 78% 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 87% because of the cash dividend received by the Company from its affiliate company.

Consolidated expenses also decreased by approximately 11% versus last year's comparable period. During the period under the review, expenses were comprised of salaries & wages (33%), interest expense (18%), representation & entertainment (18%), and other expenses (31%).

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 10%, representation & entertainment expenses were reduced by 13% and interest expense declined by 7%.

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 second 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 loans payable, resulted from the additional loan and 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 June 30, 2007 consisted of P64.2 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-Second Quarter Financial Highlights

Consolidated revenues for the second quarter of 2006 decreased by 30% compared to the prior year's second quarter figure. During the quarter under review, the revenue account only consisted of interest income from short-term placements (57%), fees and other commissions (24%), and other income (19%). Whereas, last year's revenue account for the second quarter was mainly composed of interest income from short-term placements (68%), fees and other commissions (17%), and other income (15%).

The decrease in the revenue account was mainly brought about by the reduction of the interest rate of the deposit and placement accounts. An almost 10% decline of the interest rate was noticed, from a rate ranging from 5.75% to 6% in 2005 to an average rate of 5.25% in 2006. Aside from the decline of the interest rate, the amount of the deposit and placements accounts was also reduced because of the acquisition by the Company's subsidiary of equity shares of Export and Industry Bank, Inc. (EIB).

Consolidated expenses decreased by approximately 24% compared to last year's second quarter. The expenses for this quarter consisted of salaries and wages (32%), representation and entertainment expenses (18%), interest expense (17%), and taxes and licenses (12%).

In the second quarter of 2006, the peso exchange rate depreciated and reduced the unrealized foreign exchange loss significantly by 97%, from the previous quarter's P2.8 million loss to this quarter's loss of only P.092 million. The peso exchange rate vis-à-vis the US dollar depreciated by P0.525, from P53.062: USD1 on December 31, 2005 to P53.587: USD1 at the end of June 30, 2006. By comparison, in June 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 P0.422, from an exchange rate of P56.341: USD1 in December 31, 2004 to P55.919: USD1 in June 30, 2005.

A significant decrease in the consultancy and professional fee account was also noted in this year's second 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 28% 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 share of EIB. On the other hand, as a result of the recapitalization of EIB through a new capital infusion in EIB 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 June 30, 2006. Meanwhile, the cash and cash equivalent account increased approximately by 76% 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 4%. The significant increase in the accounts payable and accrued expenses account was also noted in the quarter's under review. The Company's subsidiary borrowed funds 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 June 30, 2006 consisted of P98 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.

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

Second Quarter Top Five (5) Performance Indicators
June 30, 2008, 2007, and 2006

		Medco Holdings, Inc. (Consolidated)			Medco Asia Investment Corp (Major Subsidiary)		
		2008	2007	2006	2008	2007	2006
1. Revenue Growth	$\frac{\text{Revenue Y1-Y0}}{\text{Revenue Y0}}$	-29.89%	-29.89%	-30.27%	29.88%	-54.09%	-12.81%
2. Net Loss Growth	$\frac{\text{Net Loss Y1-Y0}}{\text{Net Loss Y0}}$	-23.94%	1.34%	-26.86%	-79.58%	73.31%	266.08%
3. Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	-2.44%	-2.94%	-2.80%	-0.38%	-1.81%	-1.01%
4. Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.58x	0.57x	0.65x	15.28x	0.58x	0.82x
5. Debt-to-Equity- Ratio	$\frac{\text{Total Liabilities}}{\text{Stockholders' Equity}}$	1.29x	1.91x	1.77x	0.367x	0.352x	0.346x

Note:

Y1= Current year

Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

**Financial Statements
June 30, 2008 and 2007**

MEDCO HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
June 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 53,314,525	P 59,186,798
Available-for-Sale Investments (Note 7)	32,809,061	32,809,061
Loans and receivables - net (Note 8)	3,528,068	4,654,589
Equity Investment- net (Note 9)	374,071,390	374,071,390
Other Assets (Note 10)	<u>26,839,127</u>	<u>26,226,312</u>
TOTAL ASSETS	P <u>490,562,171</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)	24,941,492	23,655,747
Due to an Affiliate (Note 12)	<u>118,018,740</u>	<u>121,283,907</u>
	<u>210,383,913</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>(562,856,838)</u>	<u>(558,892,131)</u>
Total equity attributable to equityholders of the parent	162,642,074	166,606,781
Minority interest	<u>117,536,184</u>	<u>117,978,034</u>
	<u>280,178,258</u>	<u>284,584,815</u>
TOTAL LIABILITIES AND EQUITY	P <u>490,562,171</u>	P <u>496,948,150</u>

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

	<u>APRIL TO JUNE</u>		<u>JANUARY TO JUNE</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
REVENUES	P 3,585,673	P 4,929,881	P 5,165,866	P 6,363,409
EXPENSES	<u>4,874,910</u>	<u>6,814,086</u>	<u>9,572,439</u>	<u>13,739,838</u>
LOSS BEFORE MINORITY				
SHARE IN NET INCOME	(1,289,237)	(1,884,205)	(4,406,573)	(7,376,429)
MINORITY SHARE IN NET INCOME	<u>(102,214)</u>	<u>(1,023,113)</u>	<u>(441,866)</u>	<u>(2,163,797)</u>
LOSS BEFORE FINAL TAX	(1,187,023)	(861,092)	(3,964,707)	(5,212,632)
LESS: PROVISION FOR FINAL TAX	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	(1,187,023)	(861,092)	(3,964,707)	(5,212,632)
DEFICIT AT BEGINNING				
OF YEAR/QUARTER	<u>(561,669,815)</u>	<u>(554,188,743)</u>	<u>(558,892,131)</u>	<u>(549,837,203)</u>
DEFICIT AT END OF QUARTER	P <u><u>(562,856,838)</u></u>	P <u><u>(555,049,835)</u></u>	P <u><u>(562,856,838)</u></u>	P <u><u>(555,049,835)</u></u>
LOSS PER SHARE (Note 18)	P <u>(0.0017)</u>	P <u>(0.0012)</u>	P <u>(0.0057)</u>	P <u>(0.0074)</u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 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>(3,964,707)</u>	<u>(5,212,632)</u>	<u>(5,143,955)</u>
Balance, end of quarter	<u>(562,856,838)</u>	<u>(555,049,835)</u>	<u>(541,642,191)</u>
Total equity attributable to equityholders of the parent	<u>162,642,074</u>	<u>170,449,077</u>	<u>183,856,721</u>
Minority Interest	<u>117,536,184</u>	<u>119,481,502</u>	<u>123,997,713</u>
Total Equity	P <u><u>280,178,258</u></u>	P <u><u>289,930,579</u></u>	P <u><u>307,854,434</u></u>

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008, 2007 AND
FOR THE YEAR ENDED DECEMBER 31, 2007

	June 30	(Audited) December 31	June 30
	<u>2008</u>	<u>2007</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss before tax and minority interest	P (4,406,573)	P (12,017,157)	P (7,376,429)
Adjustments for:			
Interest income	(880,669)	(3,582,435)	(1,398,878)
Interest expense	2,010,073	4,353,500	2,435,176
Depreciation and amortization	4,937	84,000	14,381
Unrealized forex exchange loss (gain)	(1,364,911)	3,439,994	1,356,317
Decrease(increase)in:			
Receivables	1,126,521	(848,570)	765,631
Other assets	(617,736)	(533,921)	43,604,194
Increase (decrease) in accounts payable and accrued expenses	<u>1,285,745</u>	<u>4,775,841</u>	<u>5,810,259</u>
Cash generated from (used in) operating activities	<u>(2,842,613)</u>	<u>(4,328,748)</u>	<u>45,210,651</u>
Cash paid for income taxes	<u>-</u>	<u>(538,967)</u>	<u>-</u>
Net Cash Provided by (Used in) Operating Activities	<u>(2,842,613)</u>	<u>(4,867,715)</u>	<u>45,210,651</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	880,669	3,582,435	1,398,878
Net increase in investment in subsidiary and associate	-	(7,999,990)	(1,999,989)
Net increase in available-for-sale securities	<u>-</u>	<u>(1,663,576)</u>	<u>(1,083,578)</u>
Net Cash Provided by (Used in) Investing Activities	<u>880,669</u>	<u>(6,081,131)</u>	<u>(1,684,689)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	(2,010,073)	(4,353,500)	(2,435,176)
Increase (decrease) in due to a related party	<u>(3,265,167)</u>	<u>7,584,635</u>	<u>(368,862)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(5,275,240)</u>	<u>3,231,135</u>	<u>(2,804,038)</u>
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION OF CASH AND CASH EQUIVALENTS			
	<u>1,364,911</u>	<u>(3,439,994)</u>	<u>(1,356,317)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,872,273)	(11,157,705)	39,365,607
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>59,186,798</u>	<u>70,344,503</u>	<u>24,900,477</u>
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	P <u><u>53,314,525</u></u>	P <u><u>59,186,798</u></u>	P <u><u>64,266,084</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 P3,964,707, P5,212,632 and P5,143,955 for the quarters ended June 30, 2008, 2007 and 2006, respectively, and has deficit of P562,856,838, P555,049,835 and P541,642,191 as of June 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 June 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

(d) *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.

(e) *Effective in 2007 But not Relevant to the Group*

Philippine Interpretation	PFRS 4 (Amendment)	: Insurance Contracts
	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	: Interim Financial Reporting and Impairment

(f) *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.

- (ii) 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:

(c) *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.

(d) *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.

(e) *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.

(f) *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.

(g) *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.

(h) *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:

- (d) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.
- (e) *Commission and fees* – Revenue from professional services provided to subsidiaries of EIB is recognized as the service has been completed.
- (f) *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

(c) 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.

(d) 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

(c) 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.

(d) 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 June 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 zero and P4,937 as of June 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 second 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 June 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 in June 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 June 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 June 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 June 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 June 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 53,314,525
Loans and receivables	8	3,528,068
Other assets	10	<u>26,839,127</u>
		<u>P 83,681,720</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>June 30</u> <u>2008</u>	<u>December 31</u> <u>2007</u>
Total liabilities	P 210,383,913	P 212,363,335
Total equity	280,178,258	284,584,815
Debt-to-equity ratio	<u>0.75 : 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 33,646,336	P 40,120,577	P -	P -
Cash in banks	19,660,188	19,058,221	358,458	2,059,293
Petty cash fund	8,000	8,000	-	-
	<u>P 53,314,524</u>	<u>P 59,186,798</u>	<u>P 358,458</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 second quarter of 2008 and 3.50% to 5.25% in 2007.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Shares of stocks	P 77,766,278	P 77,766,278	P 76,268,750	P 76,268,750
Private bonds	<u>42,783</u>	<u>42,783</u>	<u>-</u>	<u>-</u>
	77,809,061	77,809,061	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>
	<u>P 32,809,061</u>	<u>P 32,809,061</u>	<u>P 31,268,750</u>	<u>P 31,268,750</u>

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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Loans	P 41,522,701	P 41,539,669	P 40,314,441	P 40,331,409
Accounts receivable	2,318,367	3,020,142	-	-
Other receivables	<u>-</u>	<u>407,778</u>	<u>-</u>	<u>2,000</u>
	43,841,068	44,967,589	40,326,521	40,333,409
Allowance for impairment losses	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>	<u>(40,313,000)</u>
	<u>P 3,528,068</u>	<u>P 4,654,589</u>	<u>P 1,441</u>	<u>P 20,409</u>

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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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>-</u>	<u>-</u>	<u>199,995,912</u>	<u>199,995,912</u>
	844,452,250	844,452,250	678,376,763	678,376,763
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>-</u>	<u>-</u>
	<u>7,999,990</u>	<u>7,999,990</u>	<u>-</u>	<u>-</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		1,293,581	1,032,353	-	-
Prepayments		436,826	764,089	436,825	524,630
Miscellaneous	15.1	<u>1,185,517</u>	<u>506,667</u>	<u>433,069</u>	<u>391,708</u>
		<u>P 26,839,127</u>	<u>P 26,226,312</u>	<u>P 869,894</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 zero and P4,937 as of June 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 second 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 second 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 One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash	P 53,314,525	P -	P 53,314,525	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	41,522,701	-	41,522,701	43,864,253	-	43,864,253
Trade and other receivables	2,318,367	-	2,318,367	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>97,155,593</u>	<u>51,917,408</u>	<u>149,073,001</u>	<u>105,186,740</u>	<u>51,917,408</u>	<u>157,104,148</u>
Financial Liabilities:						
Interest-bearing loans and borrowings	P 67,423,681	P -	P 67,423,681	P 67,423,681	P -	P 67,423,681
Accounts payable and accrued expenses						
Due to affiliates	-	118,018,740	118,018,740	121,283,907	-	121,283,907
Accounts payable	2,390,387	-	2,390,387	3,532,767	-	2,532,767
Interest payable	-	1,484,106	1,484,106	-	1,484,106	1,484,106
Other liabilities	21,066,999	-	21,066,999	18,638,874	-	18,638,874
	<u>23,457,386</u>	<u>119,502,846</u>	<u>142,960,232</u>	<u>143,455,548</u>	<u>1,484,106</u>	<u>144,939,654</u>
	<u>P 90,881,067</u>	<u>P 1,19,502,846</u>	<u>P 210,383,913</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:

	June 30	December 31	
		2008	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		-	-
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:

	<u>June 30</u> <u>2008</u>	<u>December 31</u> <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 383,1345 for both the second quarter ended June 30, 2008 and June 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 June 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:

(b) 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 P2,318,367 and P2,290,368 as of June 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 June 30, 2008 and December 31, 2007 amounted to P5,523,106 and P4,460,041, respectively, for LSI and P391,893 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 June 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 second quarter ended June 30, 2008, and December 31, 2007 as follows:

	2008		
	Investment Banking	Others	Total
Income:			
Interest income	₱878,335	₱2,334	₱880,669
Other income - net	3,385,197	900,000	4,285,197
Gross income	4,263,532	902,334	5,165,866
Expenses	5,509,859	4,062,580	9,572,439
Loss before income tax	(1,246,327)	(3,160,246)	(4,406,573)
Benefit from income tax	-	-	-
Operating loss			(4,406,573)
Minority interest in income of a subsidiary			(441,866)
Net loss			(₱3,964,707)
Segment assets	₱253,243,482	₱232,503,833	₱485,747,315
Goodwill			4,814,856
Total assets			₱490,562,171
Segment liabilities	₱121,740,778	₱88,643,135	₱210,383,913

	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	(<u>P 10,177,039</u>)	(<u>P 2,379,085</u>)	(12,556,124)
Minority interest in net losses of a subsidiary			<u>3,608,371</u>
Net loss			(<u>P 8,947,753</u>)
Segment assets	<u>P257,872,575</u>	<u>P234,260,719</u>	P 492,133,294
Goodwill			<u>4,814,856</u>
Total assets			<u>P 496,948,150</u>
Segment liabilities	<u>P125,123,542</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 June 30, 2008, 2007 and 2006 is computed as follows:

	2008	2007	2006
a. Net loss	₱ 3,964,707	₱ 5,212,632	₱5,143,955
b. Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c. Basic EPS (a/b)	(₱0.0057)	(₱0.0074)	(₱0.0073)

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 P383,135 in 2008, 2007 and 2006 in the consolidated financial statements, and P156,000 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 June 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 June 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 June 30, 2008

AMOUNT	NO OF DAYS OUTSTANDING				
	1 -30 days	31-60 days	61-90 days	91-120 days	Over 120 days
Various	3,528,068				3,528,068