COVER SHEET

39652
SEC Registration Number

MEDCO HOLDINGS, INC. AND SUBSIDIARY
(Company's Full Name)

31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City
(Business Address: No. Street City/Town/Province)

Dionisio E. Carpio, Jr.
(Contact Person)

811-0465
(Company Telephone Number)

06 30
Month *Day*
2011

17-Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION
Metro Manila, Philippines

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

1. For the quarterly period ended **30 June 2011**

2. SEC Identification Number **39652**   3. BIR Tax Identification No. **004-844-938**

4. **Medco Holdings, Inc. ("Medco")**
(formerly Mindanao Exploration and Development Corp.)
Exact name of registrant as specified in its charter

5. **Metro Manila, Philippines**
Province, country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code

7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office
Postal Code

8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**

9. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each class	Number of shares of common stock outstanding and amount debt outstanding
Common	**700,000,000 shares**

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

11. Check whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).
Yes [/]No [ ]

(b) has been subject to such filing requirements for the past 90 days.
Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

See Attachment A

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

2011- Second Quarter Financial Highlights

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

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

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

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

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

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

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

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

2010- Second Quarter Financial Highlights

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

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

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

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

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

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

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

2009-Second Quarter Financial Highlights

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

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

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

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

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

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

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

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

PART II - OTHER INFORMATION

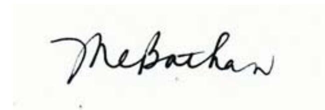
Not applicable.

SIGNATURES

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

Medco Holdings, Inc.

By:



DIONISIO E. CARPIO, JR.
President

MA. LOURDES B. BATHAN
Principal Accounting Officer

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

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

* Losses

Note:
Y1= Current year
Y0= Previous year

MEDCO HOLDINGS, INC. AND SUBSIDIARY

Financial Statements
June 30, 2011, 2010 and 2009

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

		2011		(Audited) 2010
ASSETS				
Cash and cash equivalents (Note 7)	P	35,083,120	P	39,053,962
Available-for-Sale Investments (Note 8)		31,792,321		31,792,321
Loans and receivables - net (Note 9)		53,338		235,454
Due from related parties (Note 13)		694,650		686,569
Equity Investment- net (Note 10)		148,746,260		148,746,260
Other Assets (Note 11)		8,867,513		8,771,916
TOTAL ASSETS	P	**225,237,202**	P	**229,286,482**
LIABILITIES AND EQUITY				
LIABILITIES				
Accounts Payable and Accrued Expenses (Note 12)	P	4,420,287	P	5,113,554
Due to related parties (Note 13)		183,386,679		183,364,277
		187,806,966		188,477,831
EQUITY				
Equity attributable to equityholders of the parent				
Capital Stock - P1 par value				
Authorized, Issued & outstanding- 700,000,000 shares		700,000,000		700,000,000
Additional paid-in capital		25,498,912		25,498,912
Fair value losses in available-for-sale financial assets		(376,801)		(376,801)
Deficit		(722,806,155)		(720,393,526)
Total equity attributable to equityholders of the parent		2,315,956		4,728,585
Minority interest		35,114,280		36,080,066
		37,430,236		40,808,651
TOTAL LIABILITIES AND EQUITY	P	**225,237,202**	P	**229,286,482**

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

	APRIL TO JUNE		JANUARY TO JUNE	
	2011	2010	2011	2010
REVENUES	P 2,546,339	P 1,834,978	P 3,587,325	P 2,991,274
EXPENSES	3,195,325	220,912,618	6,965,740	224,796,742
LOSS BEFORE MINORITY SHARE IN NET INCOME	(648,986)	(219,077,640)	(3,378,415)	(221,805,468)
MINORITY SHARE IN NET LOSS	(429,670)	(77,647,255)	(965,786)	(78,226,906)
LOSS BEFORE FINAL TAX	(219,316)	(141,430,385)	(2,412,629)	(143,578,562)
LESS: PROVISION FOR FINAL TAX	-	-	-	-
NET LOSS	(219,316)	(141,430,385)	(2,412,629)	(143,578,562)
DEFICIT AT BEGINNING OF YEAR/QUARTER	(722,586,839)	(575,909,331)	(720,393,526)	(573,761,154)
DEFICIT AT END OF QUARTER	P **(722,806,155)**	**(717,339,716)**	**(722,806,155)**	**(717,339,716)**
LOSS PER SHARE (Note 16)	P (0.0003)	P (0.2020)	P (0.0034)	P (0.2051)

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

	2011	2010	2009
Capital Stock- P1par value			
Authorized, issued and outstanding- 700,000,000	P 700,000,000	P 700,000,000	P 700,000,000
Additional Paid-In Capital	25,498,912	25,498,912	25,498,912
Fair value loss in avialable-for-sale financial assets	(376,801)	(408,353)	(597,152)
Deficit			
Balance, beginning of year	(720,393,526)	(573,761,154)	(568,097,307)
Net loss	(2,412,629)	(143,578,562)	(3,084,715)
Balance, end of quarter	(722,806,155)	(717,339,716)	(571,182,022)
Total Equity Attributable to Equityholders of the Parent Company	2,315,956	7,750,843	153,719,738
Minority Interest	35,114,280	37,487,610	116,253,533
Total Equity	P 37,430,236	P 45,238,453	P 269,973,271

MEDCO HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011, 2010 AND
FOR THE YEAR ENDED DECEMBER 31, 2010

		June 30 2011		(Audited) December 31 2010		June 30 2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Net loss before tax and minority interest	P	(3,378,415)	P	(226,045,273)	P	(221,805,468)
Adjustments for:						
Impairment loss		-		218,135,140		218,135,140
Interest income		(364,021)		(1,268,133)		(439,100)
Interest expense		2,238		-		4,100
Depreciation and amortization		1,510		16,604		9,057
Unrealized forex exchange loss		129,609		804,766		23,788
Decrease(increase)in:						
Receivables		182,116		139,394		288,504
Other assets		(97,107)		(776,535)		(310,882)
Decrease in accounts payable and accrued expenses		(693,267)		312,816		(655,185)
Cash used in operating activities		(4,217,337)		(8,681,221)		(4,750,046)
Cash paid for income taxes		-		(238,880)		-
Net Cash Used in Operating Activities		(4,217,337)		(8,920,101)		(4,750,046)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		364,021		1,268,133		439,100
Net Cash Provided by Investing Activities		364,021		1,268,133		439,100
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid		(2,238)		-		(4,100)
Increase (decrease) in due from/to a related party		14,321		(2,281,632)		(169,750)
Net Cash Provided by (Used in) Financing Activities		12,083		(2,281,632)		(173,850)
EFFECTS OF FOREIGN EXCHANGE ON REVALUATION OF CASH AND CASH EQUIVALENTS		(129,609)		(804,766)		(23,788)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,970,842)		(10,738,366)		(4,508,584)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		39,053,962		49,792,328		49,792,328
CASH AND CASH EQUIVALENTS AT END OF QUARTER/ YEAR	P	35,083,120	P	39,053,962	P	45,283,744

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

1. CORPORATE MATTERS

1.1 Incorporation and Nature of Business

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

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

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

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

1.2 Status of Operations

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred recurring net losses of P2,412,629, P143,578,562 and P3,084,715 for the second quarter ended June 30, 2011, 2010 and 2009, respectively. The Group reported deficits of P 722,806,155 and P720,393,526 as at June 30, 2011 and December 31, 2010, respectively. Although the Group has incurred a deficit as of June 30, 2011 and December 31, 2010, management believes that the Group will be able to achieve positive business operations in the future. Consequently, the accompanying financial statements have been prepared assuming that the Group will continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) Functional and Presentation Currency

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

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

2.02 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

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

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

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

(i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements.* The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there were no transactions with non-controlling interests during the year.

(ii) PFRS 3 (Revised 2008), *Business Combinations.* The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Company did not have any business acquisition during the year, hence, the adoption of the revised standard has no effect on the 2010 financial statements.

(iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements since the Group did not distribute non-cash assets to stockholders during the year.

(iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the 2009 Improvements to PFRS. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements but which did not also have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

- PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

- PAS 18 (Amendment), *Revenue*. The amendment provides guidance in determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

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

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

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

(c) Effective Subsequent to 2010

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

(i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.

(ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Company usually provides adequate information in its financial statements in compliance with disclosure requirements.

(iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

  - Phase 1: Classification and Measurement
  - Phase 2: Impairment Methodology
  - Phase 3: Hedge Accounting

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

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

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

2.03 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

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

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

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

2.04 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

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

(a) Loans and Receivables

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

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

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

(b) Available-for-sale Financial Assets

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

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

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

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

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

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

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

2.05 Financial Liabilities

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

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the statement of comprehensive income under the caption Interest and Bank Charges.
Accounts payable and accrued expenses and due to related parties are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

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

2.06 Provisions and Commitments

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

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

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

2.07 Equity

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

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

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

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

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

2.08 Related Party Transactions

Related party transactions are transfer of resources, services or obligations between Medco Holdings, Inc. and its related parties, regardless whether a price is charged.

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

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

2.09 Segment Reporting

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

2.10 Revenue and Expense Recognition

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

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

(a) *Commission and fees* – Revenue from professional services provided to subsidiaries of EIB is recognized as the service has been completed.

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

(c) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

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

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

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

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

2.14 Employee Benefits

(a) Post-employment benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

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

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

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

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

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

(b) *Compensated Absences*

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

2.15 Earnings Per Share (EPS)

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

2.16 Income Taxes

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.01 Critical Management Judgments in Applying Accounting Policies

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

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

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

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

(b) Operating Lease

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

Rent expense for the second quarter charged to the Group's operations amounted to P765,692 in 2011, P 539,135 in 2010 and 2009. Rent expense is presented as part of Occupancy in the statements of comprehensive income (see Note 13).

(c) *Provisions and Contingencies*

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

3.02 Key Sources of Estimation Uncertainty

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

(a) *Allowance for Impairment of Loans and Receivables*

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

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

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

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

(c) Realizable Amount of Deferred Tax Assets

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

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

(d) Impairment of Non-financial Assets

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

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

(e) Retirement Benefits

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

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

4. SEGMENT REPORTING

4.01 Business Segments

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

(a) Investment banking – principally engaged in activities such as debt and equity underwriting, money market placements, structured financing and corporate financial advisory services.

(b) Others – consists mainly of investment holding activities of the Parent Company, OHI and SHI.

4.02 Segment Assets and Liabilities

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

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

	2011		
	Investment Banking	**Others**	**Total**
Income:			
Commission and fees	P 1,720,588	P	P 1,720,588
Interest income	362,414	1,707	364,121
Other income	1,584	1,501,032	1,502,616
Gross revenues	2,084,586	1,502,739	3,587,325
Expenses	4,808,486	2,157,254	6,965,740
Loss before income tax	(2,723.900)	(654,515)	(3,378,415)
Income tax expense			
Operating loss	(P 2,723,900)	(P 654,515)	(3,378,415)
Non-controlling interest in net losses of subsidiary			965,786
Net loss			(P 2,412,629)
Segment assets	P 186,096,237	P 34,326,109	P 220,422,346
Goodwill			4,814,856
Total assets			P 225,237,202
Segment liabilities	P 46,277,845	P 141,529,121	P 187,806,966

	2010		
	Investment Banking	Others	Total
Income:			
Commission and fees	P1,720,588	-	P1,720,588
Interest income	438,179	922	439,101
Other income	51,427	780,158	831,585
Gross revenues	2,210,194	781,080	2,991,274
Expenses	222,841,134	1,955,608	224,796,742
Operating loss	(P 220,630,940)	(P 1,174,528)	(221,805,468)
Minority interest in net losses of subsidiary			(78,226,906)
Net loss			(P 143,578,562)
Segment assets	P 196,491,469	P 33,557,309	P 230,048,778
Goodwill			4,814,856
Total assets			P 234,863,634
Segment liabilities	P 46,960,261	P 142,664,920	P 189,625,181

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.01 Foreign Currency Risk

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

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

5.02 Interest Rate Risk

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

5.03 Liquidity Risk

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

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

	Group					
	2011			2010		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets:						
Cash and cash equivalents	P 35,083,120	P -	P 35,083,120	P 39,053,962	P -	P 39,053,962
Available-for sale financial assets		31,792,321	31,792,321	-	31,792,231	31,792,321
Loans and receivables (at gross)	51,338	40,315,000	40,366,338	89,225	40,459,229	40,548,454
	P 35,134,458	P 72,107,321	P 107,214,779	P 39,143,187	P 72,251,550	P 111,394,737
Financial Liabilities:						
Due to related parties	P 183,386,679	P -	P 183,386,679	P 183,364,277	P -	P 183,364,277
Accounts payable and accrued expenses	281,110	4,139,177	4,420,287	141,574	2,470,809	2,612,383
	P 183,667,789	P 4,139,177	P 187,806,966	P 183,505,851	P 2,470,809	P 185,976,660

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

5.04 Credit Risk

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

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

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

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

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	Group		Parent Company	
	2011	2010	**2011**	2010
Total liabilities	**P 187,806,966**	P 188,477,831	**P 149,431,808**	P 149,656,690
Total equity	**37,430,236**	40,808,651	**1,864,985**	2,519,500
Debt-to-equity ratio	5.02: 1	4.62 : 1	80.12:1	59.40 : 1

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

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

7. CASH AND CASH EQUIVALENTS

This account consists of:

	Group		Parent Company	
	2011	2010	**2011**	2010
Short-term placements	P 17,328,610	P 21,470,487	P -	P -
Cash in banks	17,746,510	17,575,475	2,295,327	1,867,236
Petty cash fund	8,000	8,000	-	-
	P 35,083,120	P 39,053,962	**P** 2,295,327	P 1,867,236

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 90 days and earn annual effective interest ranging from 1% to 4% in 2011 and 1.5% to 6.00% in 2010.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

9. LOANS AND RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2011	2010	**2011**	2010
Accounts receivable	P 40,366,338	P 40,459,229	P 40,366,464	P 40,382,858
Interest receivable	-	89,225	-	-
	40,366,338	40,548,454	40,366,464	40,382,858
Allowance for impairment	**(** 40,313,000**)**	(40,313,000)	(40,313,000)	(40,313,000)
	P 53,338	P 235,454	**P** 53,464	P 69,858

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

10. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

This account consists of the following:

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

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

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

11. OTHER ASSETS

This account consists of the following:

	Note	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Goodwill		P 4,814,856	P 4,814,856	P -	P -
Creditable withholding tax		2,794,179		-	-
-					
Security deposits	13.01	384,687	384,687	-	-
Miscellaneous		873,791	1,036,282	708,695	950,647
		P 8,867,513	P 8,771,916	**P** 999,927	P 950,647

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

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	Note	Group		Parent Company	
		2011	2010	**2011**	2010
Accounts payable		P 1,463,399	P 1,595,620	**P** -	P -
Retirement benefit obligation	14	2,485,851	2,485,851	403,309	403,309
Income tax payable	15	-	15,320	-	15,320
Other payables		968,202	1,016,763	373,170	562,801
		P 4,420,285	P 5,113,554	**P** 776,479	P 981,430

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

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

13.01 Purchase of Services

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

Total rental charged to operations for the second quarter amounted to P765,692 in 2011, P539,135 in 2010, and 2009 in the consolidated financial statements. These are included under Occupancy expenses in the statements of comprehensive income. Security deposits and advance rentals paid totalling P384,687 as of June 30, 2011 and December 31, 2010, are included under Other Assets in the statements of financial position.

13.02 Due from Related Parties

This account consists of the following:

	Group		Parent Company	
	2011	2010	**2011**	2010
Lippo Securities, Inc. (LSI)	P 694,650	P 686,569	P -	P -
MAIC	-	-	48,684,861	49,733,878
	P 694,650	P 686,569	P 49,187,621	P 49,733,878

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

13.03 Due to Related Parties

This account consists of the following:

	Group		Parent Company	
	2011	2010	**2011**	2010
LCR	P 175,738,638	P 176,004,425	P 141,315,408	P 141,315,408
Solid Payback Holdings, Inc.	3,552,525	3,552,525	3,552,525	3,552,525
LSI	3,044,561	2,932,125	3,044,561	2,932,125
CPIL	1.050,955	875,202	1,050,955	857,202
	P 183,386,679	P 183,364,277	P 148,963,449	P 148,657,260

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

14. EMPLOYEE BENEFITS

Employee Retirement Benefit Obligation

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

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

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

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

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

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

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

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

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

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

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

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

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

15. TAXES

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

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

15.01 Optional Standard Deduction

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

15.02 Change in Applicable Tax Rate

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

16. LOSS PER SHARE

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

		2011	2010	2009
a.	Net loss	₱ 2,412,629	₱ 143,578,562	₱3,084,715
b.	Weighted average number of outstanding common shares	700,000,000	700,000,000	700,000,000
c.	Basic EPS (a/b)	(₱0.0034)	(₱0.2051)	(₱0.0044)

17. COMMITMENTS AND CONTINGENCIES

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

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

		NO OF DAYS OUTSTANDING				
	AMOUNT	**1 -30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**Over 120 days**
Various	P 53,338					P53,338