



**SECURITIES AND EXCHANGE COMMISSION  
Metro Manila, Philippines**

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**FORM 17-A  
ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

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1. For the year ended **31 December 2007**

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**

Address of principal office

**1229**  
Postal Code

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

9. Former name, former address, and former fiscal year, if changed since last report. **Not applicable.**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec 4 and 8 of the RSA

<u>Title of each class</u>	<u>Number of shares of common stock outstanding and amount of debt outstanding</u>
<b>Common</b>	<b>700,000,000 shares (P1.00 par value per share)</b>

11. Are any or all of these securities listed on a Stock Exchange. Yes [ / ] No [ ]

Philippine Stock Exchange (PSE)  
Name of Stock Exchange

Common  
Class of securities listed therein

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 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 [ ]

13. As at 28 April 2008, the aggregate market value of the voting stock held by non-affiliates of the registrant was ₱ 100,757,610 (based on the closing price of ₱0.33 per share on 25 April 2008 which was the last recorded transaction for said shares on the Philippine Stock Exchange prior to the filing hereof).

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### (2). Business of Issuer

Medco 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 31 December 2007 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Fully paid-up common share capital</u>	<u>Percentage of equity ownership of Medco</u>	<u>Principal Activities</u>
Medco Asia Investment Corp. ( Formerly Lippo Asia Investment Corp.)	Philippines	₱269,250,000	64.54%	Investment banking
Export & Industry Bank, Inc	Philippines	₱4,734,452,540	2.45%	Commercial banking

<u>Name</u>	<u>Place of incorporation</u>	<u>Fully paid-up common share capital</u>	<u>Percentage of equity ownership of Medco</u>	<u>Principal Activities</u>
Manila Exposition Complex, Inc.	Philippines	₱165,000,000	18.18%	Exhibition hall operation

Forty four percent (44%) of the Company's revenues for 2007 came from dividend income from Manila Exposition Complex, Inc. and the rest were contributed mainly by its principal subsidiary, MAIC. Interest income from placements and deposits (26%), commissions and fees (26%), and other income (4%).

***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 in 2007, MAIC continued to generate income mainly from its fixed income investments, while offering corporate finance and fee-based services to prospective clients involving loan arrangement, financial advisory and merger and acquisition work. MAIC will remain focused on doing these activities in the succeeding years. MAIC has no plans of offering or rendering any new services aside from its regular investing 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, the Corporation Code of the Philippines and other applicable laws.

In May 2001, Exportbank signed an agreement with the major stockholders of Urban Bank, Inc. (UBI) and Urbancorp Investments, Inc. (UII) for the rehabilitation of UBI and UII through a merger with Exportbank. UBI, a commercial bank, was reopened as a result of the said merger with Exportbank. The salient provisions of the agreement included the following:

- a.) the merger of Exportbank, UBI and UII, with UBI as the surviving entity, where upon the name of UBI shall immediately be changed to Export and Industry Bank, Inc.;
- b.) 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
- c.) 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), after the aforementioned 10% conversion and after payment of the first P500,000, based on a net consolidated account basis, with interest at a fixed rate of 6% gross per annum on peso –denominated deposits and similar liabilities of UBI and UII, and 2% gross per annum on US dollar-denominated deposits payable quarterly.

The rehabilitation plan and proposed merger of Exportbank, UBI and UII, was approved by the Philippine Deposit Insurance Corporation (PDIC) and Bangko Sentral ng Pilipinas (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 the SEC 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%.

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

On May 25, 2005, pursuant to Section 17 (c) of Republic Act (RA) No. 3591, as amended, PDIC approved the grant of further assistance to Exportbank under the Memorandum of Agreement dated December 29, 2005 (the “Agreement”), anchored on the requirements of a new capital infusion in Exportbank of at least Php3.0 billion from major stockholders and the sale of a pool of assets consisting of UBI and UII non-performing assets (NPAs) with a gross book value of Php10.0 Billion. These NPAs were to be sold to PDIC, or to a third party asset management company, for a total consideration of Php3.0 Billion, together with the provision for other financial assistance in the form of (a) ten-year income support mechanism pegged to a principal amount of Php7.0 Billion or 70% of the balance of the Php10.0 Billion gross book value of the asset pool, under which the liability to the PDIC will be charged an interest rate of 1% and the government securities in which the proceeds of such liability will be invested in and which will be pledged with the PDIC to secure the liability will earn market rates of interest, and (b) a ten-year subordinated debt amounting to Php2.0 Billion qualified as tier 2 capital at an interest of 1% for the first five years and 5% for the last five years, subject to a provision that would require the Corporation to pay more interest in the event that the cumulative

income for the ten years that the debt is outstanding exceed the agreed amount that was projected for that period. On May 26, 2005, the BSP likewise approved the grant of said rehabilitation assistance and certain regulatory relief, such as, among others, (1) the staggered booking of the write off of deferred income tax and goodwill accounts totaling Php1.8 Billion over 10 years; (2) the staggered booking over 15 years of the write-off of taxes and other related expenses totaling to Php719.9 Million in connection with the sale of said NPAs and the prospective dacion of certain Exportbank Plaza units to PDIC, 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.

In the last semester of 2005, major shareholders infused additional equity amounting to P600 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. Then, there was an additional capital infusion in 2006 that brought the cumulative new capital infusion to Php3.0 Billion, which was primarily aimed at strengthening the bank's capital base to meet the new requirements of the PAS 39 and other international accounting standards that were being implemented by the BSP. Furthermore, the sale of the UBI/UII NPAs enabled the Exportbank to significantly reduce its NPA ratio and improve its profitability. With the completion of the above transactions, including the new capital infusion, Exportbank achieved a stronger statement of condition and a risk-based adequacy ratio that was well within the BSP prescribed ratio for commercial banks. Such transactions were effected in 2006.

#### **Other Subsidiary**

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

#### ***Percentage of Sales or Revenues and Net Income Contributed by Foreign Sales***

Around 5.30%, 6.30%, and 0.30% of the Company's consolidated income in 2007, 2006, and 2005, respectively, came from interest income from foreign time deposit placements in Hong Kong.

#### ***Distribution Methods of the Products or Services***

The Company, does not produce or sell any product, or offer any service. On the other hand, its significant subsidiaries do not employ any third party distributors or agents to distribute their products and services.

#### ***Status of any publicly-announced new products or service***

None

## **Competition**

After the Asian crisis of 1997, the domestic as well as regional economic and business situation had become increasingly more difficult. The poor economic conditions resulted in an unprecedented growth in loan defaults and decimated the ranks of credit worthy debtors. Those in the business sector who were well-positioned to survive had put off any plans for expansion or new investments. Consequently, loan demand from the prime clients declined while the outstanding loans of the adversely affected borrowers were not being paid on time, if at all.

From the view point of the investment banking industry where MAIC belongs, the aforementioned unfavorable credit environment was aggravated by a steadily weakening stock market. Thus, the industry's underwriting and merchant banking activities were adversely affected. The industry which was comprised of around forty investment houses of varying sizes and specializations, was operating in a market where business opportunities were becoming hard to find.

To ensure survival, MAIC has adopted a multi-pronged crisis management approach, involving:

1. a reduction in the overhead expenses
2. the adoption of a very conservative and selective stance in making credit and investment decisions
3. a determined effort to maintain the bulk of its asset portfolio liquid and of high quality, and

In the commercial banking sector, Exportbank was not spared from the adverse effects of the loans market crunch. Nevertheless, having transformed itself into a medium –sized bank after its merger with the defunct Urban Bank, Inc., Exportbank had gained more financial muscle and was now better situated to compete more effectively with its peer banks. Furthermore, in view of the said merger, both the BSP and PDIC gave their strong support to Exportbank. The BSP granted the bank the special concession of allowing it to spread out its loans loss provisioning over seven years. On the other hand, PDIC granted the bank a substantial credit facility to augment its funds sourcing.

## **Sources and Availability of Raw Materials and Names of Principal Suppliers.**

The Company as well as its significant subsidiaries are not into manufacturing and have no need of raw materials for its businesses.

## **Dependence on Single Customer**

The Company's significant subsidiaries have a widely dispersed customer base and are not dependent on any single customer or just a few customers.

## **Transactions with Related Parties**

MAIC regularly places funds in Exportbank in the form of deposits or placements in its treasury or trust instruments. Apart from these, there are no other transactions with related parties.

## **Expiration of Patents, Trademarks, Copyrights, Licenses, Franchise , Concessions and Royalty Agreements.**

The Company as well as its significant subsidiaries have not entered into agreements related to patents, trademarks, copyrights, licenses, franchise, concessions and royalty.

## **Need for Government Approvals of Principal Products or Services.**

MAIC is licensed by the SEC as an Investment House. Exportbank is licensed by the BSP as a commercial bank.

### **Effects of Existing or Probable Governmental Regulations**

The Company is subject to the rules and regulations of the SEC and the PSE. Exportbank is regulated by the BSP, PDIC and the SEC, while MAIC is regulated by the SEC. The Company and its significant subsidiaries are complying with existing government regulations which have been beneficial to their businesses. The Company is not aware of any probable government regulation that could have any adverse effect on its business or those of its subsidiaries.

### ***Cost on Development Activities***

None.

### ***Cost and Effects of Compliance with Environmental Laws***

None.

### ***Total Number of Employees and Number of Full –Time Employees.***

As of 31 December, 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. There were no employees covered by a Collective Bargaining Agreement. There are no supplemental benefits or incentive arrangements. The Company's employees are not on strike and have not gone on strike in the past three (3) years.

### **Item 2. Properties**

As at the end of 2006, MEDCO did not own any real property. It has been sharing office space at the 31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City 1229, Metro Manila (the "Floor") with three other members of the Lippo Group of Companies in the Philippines, namely, MAIC, Lippo Securities, Inc. ("LSI"), and Capital Place International Limited ("CPIL"). The Floor has 4 condominium units, two of which are occupied by the Lippo Group. The Floor is owned by CPIL which is a wholly-owned subsidiary of LSI.

The following table identifies the significant properties presently leased by the companies in which Medco has equity investments:

### **Export and Industry Bank, Inc.**

The Bank's properties consist of the following:

**Exportbank Plaza** is a 37-storey premium and one (1) basement level premium grade building, standing on a 3,698 m<sup>2</sup> prime lot bounded on three sides by Sen. Gil Puyat, Chino Roces Avenue and ExportBank Drive. It has an average gross area of 1,354 square meters and an average net usable area of 1,160 square meters per office floor. Five floors, namely 12<sup>th</sup>, 20<sup>th</sup>, 23<sup>rd</sup>, 36<sup>th</sup> and the 37<sup>th</sup> serve as the Corporation's Head Office. Aside from a branch of the bank, the ground floor houses several retail spaces leased to various establishments. Other floors are mostly office spaces leased by other companies, and three floors that have been sold as office space to various companies or parties. The building has been a Philippine Economic Zone Authority (PEZA) accredited "IT Zone" in November 3, 2003.

**ExportBank Alabang**, located at the Mapfre Asian Corporate Center Madrigal Business Park, Acacia Avenue, Ayala Alabang, Muntinlupa is a two-storey property of the Corporation. The ground floor measures 199.73 square meters and the second floor measures 437.47 square meters. Part of the 2<sup>nd</sup> floor serves as the Business Recovery Center and at the same time as alternative executive offices.

**ExportBank Greenhills**, located at the Victoria Condominium, 41 Annapolis St., San Juan City, has a floor area of 273.81 square meters, more or less. It is maintained by the Corporation for its branch operations in that area.

**ExportBank Cebu Business Park** is located at the Ayala Life-FGU Center Cebu Business Park, Mindanao Avenue corner Biliran Road, Cebu City. The Corporation owns the ground floor with an area of 157.3 square meters where it maintains a branch, and the fourteenth floor with an area of 585.27 square meters where it maintains a regional office.

**Export and Industry Bank Building** is located at Quezon corner Delgado Streets, Iloilo City. It is a 3-storey edifice, the total floor area of which is approximately 1,280 m<sup>2</sup>, including the mezzanine and the garage. The ground floor is utilized for the Bank's branch operations while the 2<sup>nd</sup> and 3<sup>rd</sup> floors are for lease.

**Empire Tower** is a commercial unit located at the ground floor of AIC Empire Tower located at ADB Avenue corner Garnet and Sapphire Roads, Ortigas Centre, Pasig, Metro Manila with an area of 151.40 square meters more or less.

#### Properties Leased by the Bank

The Bank is leasing the following properties for its branch operations:

Branch	Area (m <sup>2</sup> )	Lease Amount (₱/month)	Expiry Date
<b>Banawe</b> ACE Tower 1 Bldg. #211, Banawe Street, Quezon City	135	117,753.40	April 14, 2012
<b>Caloocan</b> Augusto Building, 478 Rizal Avenue Extension Grace Park, Caloocan City	171	146,043.98	December 31, 2012
<b>Juan Luna</b> 694-696 Juan Luna and Sta. Elena Streets, Binondo, Manila	138	216,452.54	August 31, 2009
<b>Las Pinas</b> 267 Alabang-Zapote Road, Pamplona, Las Pinas City	240	101,640.00	September 30, 2012
<b>LRT Monumento</b> Level 2, Ever Gotesco Grand Central, Rizal Avenue, Caloocan City	38	208,925.82	May 31, 2008
<b>Malabon</b> 14 Gov. Pascual Avenue, Concepcion, Malabon	300	194,911.06	February 15, 2012
<b>Mandaluyong</b> G/F Beacon Plaza, Shaw Boulevard corner Ideal Street Barangay Addition Hills, Mandaluyong City	109	83,363.98	September 30, 2008
<b>San Pedro</b> MMG Bldg. National Hi-way, San Antonio, San Pedro, Laguna	144	53,240.00	February 14, 2013
<b>Ortigas</b> G/F Pacific Center Building, San Miguel Avenue, Ortigas Center, Pasig City	152	171,420.00	November 30, 2012

<b>Rockwell</b> G/F SJG Center, 8461 Rockwell Drive, Kalayaan Avenue corner Don Pedro Street, Makati City	90	74,257.58	Month-to-Month
<b>Rufino Pacific</b> G/F Rufino Pacific Tower Building, Ayala Avenue, corner Rufino Street, Makati City	150	132,160.00	February 28, 2009
<b>Salcedo</b> G/F Salcedo Towers, 169 H.V. Dela Costa Street, Salcedo Village, Makati City	166	143,360.00	March 31, 2011
<b>Sucab</b> G/F Luriell Building, Dr. A. Santos Avenue, Paranaque City	85	19,040.00	October 17, 2010
<b>Angeles</b> 343 Sto. Rosario Street, Angeles City, Pampanga	300	55,636.00	August 14, 2010
<b>Bacolod</b> MFC Building, Lacson corner Henares Streets, Bacolod City	304	117,305.44	February 28, 2009
<b>Baguio Branch</b> G/F, La Azotea Building, 108 Session Road, Baguio City	51	43,143.77	Month-to-Month
<b>Binondo Branch</b> G/F Level Downtown Center Building, 520 Quintin Paredes Street, Binondo, Manila	300	190,575.00	July 31, 2008
<b>Cabanatuan</b> G/F Unit B Gonzales Building, 377 Diversion Road, Maharlika Hi-way, Cabanatuan City	110	30,000.00	March 31, 2009
<b>Cagayan de Oro</b> Jofelmor Building, Mortola corner J.R. Borja Streets Cagayan de Oro City	162	81,928.00	June 15, 2009
<b>Calamba Branch</b> Main Alley 1, Pamilihan sa Parian Commercial Complex, South National Highway, Barangay Parian, Calamba City	64	28,160.00	Month-to-Month
<b>Cebu</b> 116 Gorordo Avenue, Lahug, Cebu City	1,632	160,524.00	August 31, 2009
<b>Cebu Downtown Branch</b> Unit G011A and GCR02 Elizabeth Mall, Leon Kilat Street corner South Expressway, Downtown, Cebu City	28	57,750.00	March 31, 2008
<b>Cubao Farmers</b> 3/F New Farmers Plaza, EDSA corner Gen. Roxas Avenue, Cubao, Quezon City	39	69,428.80	Month-to-Month
<b>Dagupan</b> Abarabar Building, Perez Boulevard, Dagupan City	200	74,491.56	April 30, 2009
<b>Davao</b> Aldevinco Commercial Building, #4 C.M. Recto Street, Davao City	198	56,000.00	August 31, 2009

<b>Davao Gaisano Branch</b> LG Level, Gaisano Mall, J.P. Laurel Avenue, Davao City	16	32,000.00	Month-to-Month
<b>Del Monte Branch</b> 497 Del Monte Avenue, Brgy. San Francisco del Monte, Quezon City	238.55	152,527.00	April 15, 2013
<b>EDSA Taft Branch</b> 2810 Taft Avenue Extension, Pasay City	120	79,860.00	September 30, 2008
<b>Ermita Branch</b> G/F Mabini Mansion Hotel and Residential Suites 1011 A. Mabini Street, Ermita, Manila	53	47,740.00	May 31, 2008
<b>East Avenue</b> G/F Lyman Building, 18 East Avenue corner V. Luna Road, Quezon City	60	41,053.08	May 15, 2008
<b>Greenhills Ortigas Branch</b> Ground Floor I-Bank Bldg. Ortigas Avenue near corner Wilson St. San Juan	247	170,550.00	December 15, 2012
<b>Imus</b> 155 Nueno Avenue, Barangay Poblacion 4, Imus, Cavite	120	37,013.76	October 15, 2010
<b>Jupiter Branch</b> No. 40 Jupiter St. Bel Air, Makati City	177	88,500.00	February 28, 2013
<b>Legaspi Branch</b> Evekal Building, 855 Pasay Road corner Amorsolo Street Legaspi Village, Makati City	228	179,706.00	Month-to-Month
<b>Libis Branch</b> G/F Intrepid Plaza E. Rodriguez Jr. Avenue, Barangay Bagumbayan, Quezon City	32	27,603.84	March 31, 2008
<b>Mabalacat Branch</b> Mabalacat Public Market, McArthur Highway, Mabalacat, Pampanga	130	20,000.00	October 31, 2009
<b>Masangkay Branch</b> 955 Masangkay St. Binondo Manila	285.32	80,000.00	April 15, 2013
<b>Metro East Pasig</b> Robinsons Metro East, Marcos Highway, Barangay Dela Paz, Santolan, Pasig City	44	41,140.00	April 30, 2008
<b>Navotas Branch</b> 514 North Bay Boulevard corner Lacson Street, Navotas, Metro Manila	233	42,856.73	May 15, 2009
<b>New Libis Branch</b> 80 E. Rodriguez Jr. Avenue Libis, Quezon City	255	120,487.50	December 15, 2012
<b>Pacific Star</b> G/F Pacific Star Building, Sen. Gil J. Puyat corner Makati Avenue, Makati City	108	78,619.75	May 31, 2008
<b>Paco Branch</b> G/F Paco Building corner Pedro Gil, Angel Linao	35	30,000.00	May 31, 2008

and Gen. Luna Streets, Paco, Manila			
<b>Quezon Avenue</b> Anita Building 1300 corner Quezon and Timog Ave., Quezon City	250	141,432.07	May 15, 2008
<b>Roosevelt Branch</b> Ground Floor 205 corner Roosevelt Ave. and Osmena St. San Francisco Del Monte	250	53,500	December 15, 2012
<b>Sta. Rosa</b> Units 2 & 4 Sta. Rosa Commercial Complex, Balibago Sta. Rosa, Laguna	177	37,085.00	April 15, 2008
<b>Sto. Cristo Branch</b> Ground Floor Kim Siu Ching Foundation Bldg. 471-483 Sto. Cristo St. cor. Jaboneros St. Binondo Manila	188.88	76,225.98	December 15, 2012
<b>Timog Branch</b> Timog Commercial Complex Timog Avenue corner Panay Avenue Quezon City	172.61	93,000.00	May 01, 2013
<b>Tutuban Branch</b> 2/F Center Mall Building, Tutuban Center, Claro M. Recto Avenue, Manila	48	64,532.01	April 14, 2008
<b>Tutuban Branch</b> Primblook Building Tutuban Center Claro M. Recto, Manila	131.35	70,000.00	August 22, 2014
<b>Valenzuela Branch</b> Unit 108, Stripmall-Ellimac Building, McArthur Highway Barangay Dalandanan, Valenzuela City	49	44,771.00	Month-to-Month
<b>Valenzuela Branch</b> 95 McArthur Highway Marulas, Valenzuela City	250	58,800.00	March 17, 2018

Off-site ATMs:

	<b>1. SM Megamall</b>			
Mandaluyong City		4.5	38,000.00	October 31, 2008
	<b>2. Greenhills Jewellery</b>			
San Juan		3	15,000.00	October 04, 2008

The above properties leased by the Bank are renewable upon mutual agreement of the parties.

**Medco Asia Investment Corporation**

MAIC is renting 211.82 sq. meters of Unit C of the 31F of Rufino Pacific Tower, Ayala Avenue, Makati City, with annual rent payment of P766,270.

Item 3. Legal Proceedings

As at 31 December 2007 and as far as the management of the Company is aware, there are no pending material legal proceedings to which the Company or of its subsidiary, MAIC, is a party or of which any of its property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

**PART II - OPERATIONAL AND FINANCIAL INFORMATION**

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

*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:

1st Quarter  
High   Low  
P 0.58   P0.33

The high and low prices for each quarter of 2007 were as follows:

<u>1st Quarter</u>		<u>2<sup>nd</sup> Quarter</u>		<u>3rd Quarter</u>		<u>4<sup>th</sup> 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>2<sup>nd</sup> Quarter</u>		<u>3rd Quarter</u>		<u>4<sup>th</sup> 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>2<sup>nd</sup> Quarter</u>		<u>3rd Quarter</u>		<u>4<sup>th</sup> 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 28 April 2008, the closing price of ₱0.33 per share on 25 April 2008 was the last recorded transaction for said shares on the PSE prior to the filing hereof.

*Recent Sales of Unregistered Securities. -- NONE*

### *Holders, Dividends and Sale of Unregistered Securities*

Based on the records of the Company's stock transfer office, Philippine Stock Transfer, Inc., as at 28 April 2008, there were 693 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 stockholder are set forth on page 30 of this report.

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.

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

### Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with Item 1 and the consolidated Financial Statements and related Notes to Financial Statements in Exhibit A of this Report.

#### **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 ₱126.0 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 ₱41.2 million, representing the net effect of the reversal of equity in net losses amounting to ₱0.7 million and adjustment on provision for impairment losses in equity investments amounting to ₱477.7 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	Net Income
	Assets	Liabilities			
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 Assets	Total Liabilities	Total Stockholders' Equity	January 1, 2004 Retained Earnings	2004 Net Income
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)	(125,114)	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	(19,439)
PAS 27 - Investment in a subsidiary	477,698,726
As restated	P493,663,977

**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 ₱176 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 ₱189 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 ₱4.65 million and ₱0.02 million, respectively, net of allowance for impairment losses of ₱40.3 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 ₱32.8 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. 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.

Item 7. Financial Statements

The consolidated Financial Statements and related Notes to Financial Statements of Medco for the past 3 years ended 31 December 2007 appear on Exhibit A of this Report.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

NONE

**PART III - CONTROL AND COMPENSATION INFORMATION**

Item 9. Directors and Executive Officers of the Registrant

Information on the directors and executive officers of Medco will be incorporated in SEC Form 17-IS or the Proxy Statement, which will be submitted on a later date prior to the annual stockholders meeting.

***Significant Employee.***

None.

***Family Relationship***

None.

***Involvement in Certain Legal Proceedings***

None

Item 10. Executive Compensation

Information on the "Compensation of Directors and Executive Officers" will be incorporated in SEC 17-IS or the Proxy Statement, which will be submitted on a later date prior to the annual stockholders meeting.

***Warrants and Options Outstanding: Repricing*** - Not Applicable

Item 11. Security Ownership of Certain Beneficial Owners and Management

*Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Company's Outstanding Stock as of 28 April, 2008:*

Title of class	Name and address of record/beneficial owner	Amount and nature of record/beneficial ownership ("r" or "b")	Percent of class
Common	Citivist Asia Limited 24/F Lippo Tower, Lippo Centre, 89 Queensway Hong Kong	322,314,874 (b)	46.04%
Common	PCD Nominee Corp. Makati Stock Exchange Bldg., Ayala Avenue, Makati City	197,040,166(r)	28.15%

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

The registered owners of more than 5% of the outstanding shares of PCD Nominee Corp. is as follows:

Title of class	Name and address of owner	Amount and nature of ownership (indicate record and/or beneficial ownership)	Percent of class
Common	EIB Securities, Inc. 11 <sup>th</sup> Flr. Export Bank Plaza, Chino Roces Ave., Makati City	72,308,012 (record owner-foreign)	10.33%

The 72,308,012 shares -foreign) are in turn owned by the following record and/or beneficial owners:

Title of class	Name and address of owner	Amount and nature of ownership (indicate record and/or beneficial ownership)	Percent of class
Common	Lippo Securities Limited (LSL) Hongkong	72,308,012 (record owner)	10.33%

*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:

Title of class	Name and address of record owner	Amount and nature of record ownership	Percent of class
Common	Dionisio E. Carpio, Jr. No. 40 Columbia Street Loyola Grand Villas, Quezon City Held for: Citivest Asia Limited 24/F Lippo Tower, Lippo Centre, 89 Queensway Hong Kong	9	-
Common	The 5 directors own 1 qualifying shares	5	-

All of the directors own one (1) qualifying share, except for Mr. Dionisio E. Carpio, Jr . who owns eleven (9) shares in the Company, which are held by him for and on behalf of Citivest Asia Limited; and Mrs. Edna Reyes who owns 50,000 shares for herself. This information should be read in conjunction with Item 1, Description of Business on pages 4 to 7 of this Report.

Voting Trust Holders of 5% or More- None

Changes in Control None

Item 12. Certain Relationships and Related Transactions ( See Note 15 , pages 24 and 25 of the Notes to the Financial Statements )

The Company and its subsidiary, in the ordinary course of business, grant to and obtain advances from certain affiliated companies at prevailing market rates. In addition, Medco Asia Investment Corp. also leases its office space from affiliate Capital Place International Limited for a period one year with an annual rental of P766,270.

The parent-subsiary relationships of the Company are discussed in Item 1, "Description of Business" on pages 4 to 7 of this Report.

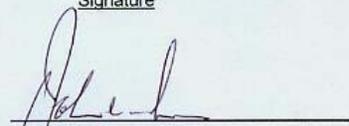
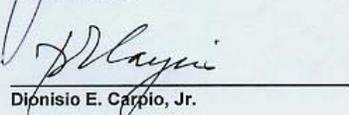
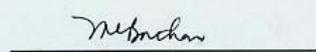
**PART IV - EXHIBITS AND SCHEDULES**

Item 13. Exhibits and Reports on SEC Form 17-A

<b>(a) Exhibits</b>	<b><u>Page/Incorporation by Reference</u></b>
(1) Financial Statements Consolidated Balance Sheets Consolidated Statements of Income Consolidated Statements of Cash Flow Notes to Financial Statements	Exhibit A of this Report
(2) Plan of Acquisition	not applicable
(3) Instruments Defining the Rights of Securities Holders	not applicable
(4) Voting Trust Agreement	not applicable
(5) Annual Report to Security Holders	not applicable
(6) Change in Certifying Accountant	not applicable
(7) Report furnished to Security Holders	not applicable
(8) Subsidiaries of the Registrant	3
(9) Published Report Regarding Matter Submitted to Vote of Security Holders	not applicable
(10) Consents of Experts and Independent Counsel	not applicable
(11) Power of Attorney	not applicable

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this Report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 25, 2008.

<u>Signature</u>	<u>Capacity</u>
 _____ John L. W. Lee	Chairman of the Board
 _____ Dionisio E. Carpio, Jr.	President
 _____ Ma. Lourdes B. Bathan	Principal Accounting Officer

REPUBLIC OF THE PHILIPPINES)  
MAKATI CITY ) S.S.

**SUBSCRIBED AND SWORN** to before me this **APR 25 2008**, affiants exhibiting to me their Passports/Comm. Tax Certificates, as follows:

NAMES	COMM. TAX CERT. / PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Ma. Lourdes B. Bathan	13277145	January 21, 2008	Manila
Dionisio E. Carpio, Jr	13277136	January 18, 2008	Manila
John L.W. Lee	761006550	March 19, 2002	Hong Kong

Doc. No. : *109*  
Page No. : *83*  
Book No. : *114*  
Series of 2008

  
**ATTY. LOPE M. VELASCO**  
Notary Public  
Until Dec. 31, 2009  
PTR O.R. No. 6238211 – Mla. 01/02/07  
IBP O.R. No. 712488 – Mla. 12/20/07  
TIN 212-965-989  
Roll No. 28757-06

**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	<u>Revenue Y1-Y0</u> Revenue Y0	-20.97%	-30.32%	-103.96%	-45.08%	-36.28%	-6.683%
2. Net Income Growth	<u>Net Income Y1-Y0</u> Net Income Y0	-26.35%	181.19%	-98.98%	0.21%	-1795.88%	-103.69%
3. Return on Equity	<u>Net Income</u> Ave. Stockholders' Equity	-4.41%	-5.54%	-4.81%	-3.06%	-2.91%	017.%
4. Current Ratio	<u>Current Assets</u> Current Liabilities	0.32x	0.38x	4.26x	16.09x	24.96x	53.89x
5. Debt-to-Equity- Ratio	<u>Total Liabilities</u> Stockholders' Equity	0.73x	.67x	0.44x	0.38x	0.34x	0.019x

Note:

Y1= Current year

Y0= Previous year

**MEDCO HOLDINGS, INC.**  
**LIST OF TOP 20 STOCKHOLDERS**  
**As of 28 April 2008**

RANK	NAME	Nationality	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
1	Citivest Asia Limited	Foreign	322,314,874	46.04%
2	PCD Nominee Corporation-Filipino	Filipino	109,976,154	15.71%
3	PCD Nominee Corporation-Non-Filipino	Foreign	87,064,012	12.44%
4	Clariwealth Investment Limited	Foreign	34,500,000	4.93%
5	Green Target Limited	Foreign	34,500,000	4.93%
6	Prowealth Asia Limited	Foreign	34,500,000	4.93%
7	Sinojade Limited	Foreign	34,500,000	4.93%
8	Suncentury Asia Limited	Foreign	34,500,000	4.93%
9	Lippo Sec., Inc. FAO Shen Kuo Hsu	Foreign	1,600,000	0.23%
10	Rexlon Gatchalian	Filipino	1,000,000	0.14%
11	Rodrigo, Raul	Filipino	1,000,000	0.14%
12	Lee, Kwok Fai Davy	Foreign	672,900	0.10%
13	Ng, Ka Kit	Foreign	662,990	0.09%
14	Chua, Andy &/or Gemma	Filipino	420,000	0.06%
15	Lo, Eduardo	Filipino	394,000	0.06%
16	Cordova, Lawrence	Filipino	350,000	0.05%
17	Belson Sec., Inc. A/C #196-358	Filipino	300,000	0.04%
18	Li Chih Hui	Filipino	300,000	0.04%
19	Luk, Millie	Foreign	236,000	0.03%
20	Marita Ibardolaza	Filipino	100,000	0.01%

Total Number of shares issued and outstanding = 700,000,000



# Medco Holdings, Inc.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

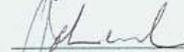
April 11, 2008

The management of **Medco Holdings, Inc.** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRSs) and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

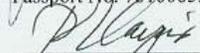
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

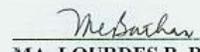
Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the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



**JOHN L.W. LEE**  
Chairman of the Board  
Passport No. 761006550



**DIONISIO E. CARPIO, JR.**  
President  
TIN 115-321-387



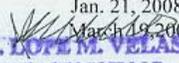
**MA. LOURDES B. BATHAN**  
Principal Accounting Officer  
TIN 163-257-196

APR 25 2008

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ at **MAKATI CITY** exhibiting to me their Community Tax Certificate/Passport as follow:

Dionisio E. Carpio, Jr.	13277136	Jan. 18, 2008/Manila
Ma. Lourdes B. Bathan	13277145	Jan. 21, 2008/Manila
John L.W. Lee	761006550	March 19, 2002/Hongkong

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Page No. 13  
Book No. 114  
Sec'd. Aff. 2008

  
**ATTY. LORE M. VELASCO**  
NOTARY PUBLIC  
Until Dec. 31, 2009  
Office: 623 8211 - Mla. 01/02/07  
TIN 212-965-989  
Roll No. 28757 06

Office: Pacific Tower, 6784 Ayala Avenue, Makati City, Philippines  
Tels.: (632) 811-04-65 to 67  
E-mail: 623 8211 - Mla. 12/20/07

## Report of Independent Auditors

### The Board of Directors and the Stockholders

**Medco Holdings, Inc.**  
31<sup>st</sup> Floor, Rufino Pacific Tower  
6784 Ayala Avenue, Makati City

20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 886-5511  
F +63 2 886-5506; +63 2 886-5507  
www.punongbayan-araullo.com

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)*

		Group		Parent Company	
<b><u>ASSETS</u></b>	Notes	2007	2006	2007	2006
Cash	6	59,186,798	70,344,503	2,059,293	505,470
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>496,948,150</u>	<u>497,309,846</u>	<u>234,260,719</u>	<u>232,754,496</u>
<b><u>LIABILITIES AND EQUITY</u></b>					
Interest-bearing loans and borrowings	11	67,423,681	67,423,681	67,423,681	67,423,681
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>496,948,150</u>	<u>497,309,847</u>	<u>234,260,708</u>	<u>232,754,485</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)*

		Group			Parent Company		
<b>REVENUES</b>	<b>Notes</b>	2007	2006	2005	2007	2006	2005
Dividend income		6,000,000	3,000,000	3,000,000	6,000,000	3,000,000	3,000,000
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>
<b>EXPENSES</b>							
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>
<b>LOSS BEFORE TAX</b>		12,017,157	15,371,554	8,056,616	2,376,207	6,783,007	6,622,822
<b>TAX EXPENSE (INCOME)</b>	16	538,967	1,568,371	(2,032,203)	2,878	807	-
<b>NET LOSS</b>		<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>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>
Loss per share		<u>0.018</u>	<u>0.024</u>	<u>0.009</u>	<u>0.003</u>	<u>0.010</u>	<u>0.009</u>

**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
<b>Capital Stock</b> – P1 par value, Authorized, issued and outstanding – 700,000,000 shares	<b>700,000,000</b>	700,000,000	700,000,000	<b>700,000,000</b>	700,000,000	700,000,000
<b>Additional Paid-In Capital</b>	<b>25,498,912</b>	25,498,912	25,498,912	<b>25,498,912</b>	25,498,912	25,498,912
<b>Deficit</b>						
Balances at beginning of year	<b>(549,837,203)</b>	(536,498,232)	(530,261,647)	<b>(576,098,912)</b>	(569,315,098)	(562,692,276)
Net loss	<b>(8,947,753)</b>	(13,338,971)	(6,236,585)	<b>(2,379,085)</b>	(6,783,814)	(6,622,822)
Fair value losses	<b>(107,175)</b>	-	-	-	-	-
Balance at end of year	<b>(558,892,131)</b>	(549,837,203)	(536,498,232)	<b>(578,477,997)</b>	(576,098,912)	(569,315,098)
<b>Total Equity Attributable to Equity holders of the Parent Company</b>	<b>166,606,781</b>	175,661,709	189,000,680	<b>147,020,915</b>	149,400,000	156,183,814
<b>MINORITY INTEREST</b>						
Balance at beginning of year	<b>121,645,280</b>	125,246,234	125,034,078	-	-	-
Share in fair value losses	<b>(58,875)</b>	-	-	-	-	-
Share in net loss	<b>(3,608,371)</b>	(3,600,954)	212,156	-	-	-
Balances at end of year	<b>117,978,034</b>	121,645,280	125,246,234	-	-	-
<b>Total Equity</b>	<b><u>284,584,815</u></b>	<u>297,306,989</u>	<u>314,246,914</u>	<b><u>147,020,915</u></b>	<u>149,400,000</u>	<u>156,183,814</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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Loss before income tax	<b>(12,017,157)</b>	(15,371,555)	(8,056,616)	<b>(2,376,207)</b>	(6,782,996)	(6,622,822)
Adjustments for:						
Interest income	<b>(3,582,435)</b>	(8,983,277)	-	-	-	-
Interest expense	<b>4,353,500</b>	5,207,891	-	<b>4,353,500</b>	5,207,891	-
Unrealized foreign exchange loss (gain)	<b>3,439,994</b>	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	<b>84,000</b>	38,001	30,014	-	-	-
Recovery from impairment losses	-	-	(469,381)	-	-	-
Operating income (loss) before working capital changes	<b>(7,722,098)</b>	(16,787,659)	(5,420,828)	<b>1,967,924</b>	(1,570,334)	(6,619,004)
Decrease (increase) in loans and receivables	<b>(848,570)</b>	531,144	2,766,164	7,191	34,325	243,590
Increase (decrease) in other assets	<b>(533,922)</b>	556,643	(20,614,514)	40,409	(357,732)	1,428,952
Increase (decrease) in accounts payable and accrued expenses	<b>4,775,841</b>	(2,237,593)	5,096,293	3,885,308	6,618,319	5,684,284
Cash generated from (used in) operations	<b>(4,328,748)</b>	(17,937,465)	(20,778,046)	5,900,832	4,724,578	737,822
Cash paid for income taxes	<b>(538,967)</b>	(1,568,371)	(555,230)	<b>(2,878)</b>	(807)	-
Net cash from (used in) operating activities	<b>(4,867,715)</b>	(19,505,836)	(21,333,276)	<b>5,897,954</b>	4,723,771	737,822

<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest received	<b>3,582,435</b>	8,983,277	-	-	-	-
Net increase in investments in subsidiary and associate	<b>(7,999,990)</b>	(366,071,400)	-	-	-	-
Net decrease (increase) in available-for-sale financial assets	<b>(1,663,576)</b>	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	<b><u>(6,081,131)</u></b>	<u>(56,654,468)</u>	<u>(275,938,862)</u>	-	-	-
<b>CASH FLOWS FINANCING ACTIVITIES</b>						
Interest paid	<b>(4,353,500)</b>	(5,207,891)	-	<b>(4,353,500)</b>	(5,207,891)	-
Increase in due to a related party	<b>7,584,635</b>	-	-	-	-	-
Proceeds from loan availments	-	119,565,021	-	-	-	-
Net cash from financing activities	<b><u>3,231,135</u></b>	<u>114,357,130</u>	-	<b>(4,353,500)</b>	(5,207,891)	-
Effects of exchange rate changes in cash	<b><u>(3,439,994)</u></b>	<u>(2,850,798)</u>	<u>(3,075,155)</u>	<b><u>9,369</u></b>	<u>(4,771)</u>	<u>(3,818)</u>
Net increase (decrease) in cash	<b><u>(11,157,705)</u></b>	35,346,028	(300,347,293)	<b><u>1,553,823</u></b>	(488,891)	734,004
Cash at beginning of year	<b><u>70,344,503</u></b>	<u>34,998,475</u>	<u>335,345,768</u>	<b><u>505,470</u></b>	<u>994,361</u>	<u>260,357</u>
Cash at end of year	<b><u>59,186,798</u></b>	<u>70,344,503</u>	<u>34,998,475</u>	<b><u>2,059,293</u></b>	<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 31<sup>st</sup> 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:

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

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	<b>P 212,363,335</b>	P 200,002,858	<b>P 87,239,793</b>	P 83,354,485
Total equity	<b>284,584,815</b>	297,306,989	<b>147,020,926</b>	149,400,011
Debt-to-equity ratio	<u><b>0.73 : 1</b></u>	<u>0.67 : 1</u>	<u><b>0.59 : 1</b></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	<b>P 40,120,577</b>	P 48,613,771	<b>P -</b>	P -
Cash in banks	<b>19,058,221</b>	21,722,732	<b>2,059,293</b>	505,470
Petty cash fund	<b>8,000</b>	8,000	<b>-</b>	-
	<b><u>P 59,186,798</u></b>	<u>P 70,344,503</u>	<b><u>P 2,059,293</u></b>	<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	<b>P 77,766,278</b>	P 76,268,750	<b>P 76,268,750</b>	P 76,268,750
Private bonds	<b>42,783</b>	42,783	<b>-</b>	-
	<b>77,809,061</b>	76,311,533	<b>76,268,750</b>	76,268,750
Allowance for impairment	<b>( 45,000,000)</b>	( 45,000,000)	<b>( 45,000,000)</b>	( 45,000,000)
	<b><u>P 32,809,061</u></b>	<u>P 31,311,533</u>	<b><u>P 31,268,750</u></b>	<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	<b>P 38,150,149</b>	P 34,173,227
Liabilities	<b>32,659,862</b>	28,897,013
Equity	<b>5,490,287</b>	5,276,214
Net income for the year	<b>201,697</b>	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		<b>P 19,108,347</b>	P 19,108,347	<b>P -</b>	P -
Goodwill		<b>4,814,856</b>	4,814,856	-	-
Creditable withholding tax		<b>1,032,353</b>	516,177	-	-
Prepayments		<b>764,089</b>	865,937	<b>524,630</b>	626,478
Miscellaneous	15.1	<b>506,667</b>	471,073	<b>391,708</b>	330,269
		<b><u>P 26,226,312</u></b>	<u>P 25,776,390</u>	<b><u>P 916,338</u></b>	<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 (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
<b>Financial Assets:</b>						
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>
<b>Financial Liabilities:</b>						
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>
<b>Parent Company</b>						
	2007			2006		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Assets:</b>						
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>
<b>Financial Liabilities:</b>						
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.

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

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

	<u>2007</u>	<u>2006</u>
Present value of unfunded obligation	<b>P 3,407,994</b>	P 2,018,383
Unrecognized actuarial (gain) loss	<b>( 2,027,410)</b>	5,900
Other income - retirement	<b>-</b>	( 938,695)
Retirement benefit obligation	<b><u>P 1,380,584</u></b>	<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	<b>P 89,891</b>	P	90,842	P	226,900
Interest cost	<b>167,294</b>		105,910		239,000
Actuarial gain recognized during the year	<u><b>37,811</b></u>		<u>-</u>		<u>(1,300)</u>
Retirement benefit expense	<u><b>P 294,996</b></u>	P	<u>196,752</u>	P	<u>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	<b>P 1,085,588</b>	P	888,836	P	1,901,400
Expense recognized	<u><b>294,996</b></u>		<u>196,752</u>		<u>464,600</u>
Balance at end of year	<u><b>P 1,380,584</b></u>	P	<u>1,085,588</u>	P	<u>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	<b>7.75%</b>		7.75%		13.98%
Expected rate of salary increases	<b>5%</b>		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 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	334
	<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
	P	<u>40,487,397</u>	P <u>-</u>	P <u>15,461,911</u>	P <u>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>

	<b>2006</b>		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
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>	<u>( 16,939,925 )</u>
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>
	<b>2005</b>		
	<u>Investment Banking</u>	<u>Others</u>	<u>Total</u>
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>	<u>( 6,024,413 )</u>
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	<b>P12,556,124</b>	P16,939,925	P 6,024,413	<b>P 2,379,085</b>	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><b>P 0.018</b></u>	<u>P 0.024</u>	<u>P 0.009</u>	<u><b>P 0.003</b></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.