



MEDCO HOLDINGS, INC.

April 15, 2011

PHILIPPINE STOCK EXCHANGE, INC.
PSE Center, Exchange Road
Ortigas Center, Pasig City

Attention: **Janet A. Encarnacion**
Head- Disclosure Department

Re: **SEC Form 17-A**

Gentlemen:

In compliance with the Philippine Stock Exchange (“PSE”) Disclosure Rules, please find attached the SEC Form 17-A for the year ended December 31, 2010 of Medco Holdings, Inc.

We trust that you will find the foregoing in order.

Very truly yours,

MA. LOURDES B. BATHAN
Corporate Information Officer

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

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

1. For the year ended **31 December 2010**
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** 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
7. **31st Floor, Rufino Pacific Tower, 6784 Ayala Avenue,**
Makati City, Metro Manila, Philippines **1229**
Address of principal office Postal Code
8. Registrant's telephone number, including area code: **(632) 811-0465 to 67**
9. 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>
Common	700,000,000 shares (P1.00 par value per share)

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

<u>Philippine Stock Exchange (PSE)</u>	<u>Common</u>
Name of Stock Exchange	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 15 April 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant was ₱ 185,065,712 (based on the closing price of ₱0.49 per share on August 11, 2010 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. In 1997, Citivest purchased additional Medco shares which increased its equity stake to 70.67%. The Lippo Group is a major Asia Pacific business conglomerate principally involved in financial services and investment activities such as commercial banking, securities and futures broking, merchant and investment banking, food operation, and property investment and development. It has operating units and representative offices in major Asian countries and in the United States of America. Citivest is a corporation organized under the laws of the British Virgin Islands and is a wholly-owned subsidiary of Lippo China Resources Limited (formerly Hongkong China Limited) (“LCR”), an investment holding company listed on The Stock Exchange of Hong Kong Limited and an integral corporate investment vehicle of the Lippo Group. LCR’s subsidiaries are engaged in investment holding, property investment and development, estate management, food operation and department store business.

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

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

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

Details of the principal subsidiary and affiliated companies and their activities as at 31 December 2008 are as follows:

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

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

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

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

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

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

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

On 10 August 2010 , MAIC filed with the SEC a request for the voluntary cancellation of its investment house license. MAIC has been somewhat inactive in the securities underwriting business and such inactivity is expected to continue indefinitely. MAIC also recognized an allowance for impairment loss on its investment in common shares of Export and Industry Bank, Inc., which comprised almost 79% of its total assets as of December 31, 2010. Such impairment will result MAIC's inability to maintain the capital requirement for investment houses under the Investment Houses Law. As of this writing, MAIC has not yet received the SEC's formal approval on its request.

Export & Industry Bank, Inc. ("Exportbank")

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

In May 2001, Exportbank signed an agreement with the major stockholders of Urban Bank, Inc. (UBI) and Urbancorp Investments, Inc. (UII) for the rehabilitation of UBI and UII through a merger

with Exportbank. UBI, a commercial bank, was reopened as a result of the said merger with Exportbank. The merger of Exportbank, UBI and UII, with UBI as the surviving entity, took effect on February 1, 2002, whereupon the name of UBI was immediately changed to Export and Industry Bank, Inc.. Thereafter, the Company's interest in Exportbank decreased from 29.83% to 17.49%.

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

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

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

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

Then, in the later part of 2009, Exportbank started discussions with various prospective investors for the purpose of further augmenting the bank's capital as well as exploring other related viable options with such investors along those lines, On July 16, 2010, the BSP granted its approval-in-principle on the proposed sale to Banco de Oro Universal Bank, Inc. (BDO) of all of Exportbank assets in consideration for BDO's assumption of all of Exportbank liabilities, including all of its deposit liabilities, subject to the execution of appropriate documentation and the fulfillment of certain closing conditions. On September 20, 2010, the Exportbank shareholders approved the proposed transaction with BDO.

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

Other Subsidiary

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

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

During the year under review, there were no sales or revenues and net income contributed by foreign sales since the time deposit placements in Hong Kong were terminated in January 2009.

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

The still-unfavorable capital market environment up to mid-2010 continued to adversely affect the business prospects for the Company's principal subsidiary, MAIC. Thus, on 10 August 2010 , MAIC filed with the SEC a request for the voluntary cancellation of its investment house license.

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.

As mentioned above, MAIC is awaiting the formal approval of the SEC on its request for the voluntary cancellation of its investment house license. Exportbank, on the other hand, remains 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. 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, 2010, 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 2010, 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, one of which is 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 owned and leased by the companies in which Medco has equity investments:

Export and Industry Bank, Inc.

The Bank's properties consist of the following:

Metro Manila

	Branch	Area (sqm)	Remarks
1	Acropolis 80 E. Rodriguez Jr. Avenue Libis, Quezon City	255.00	LEASED
	Alabang Mapfre Asian Corporate Center Madrigal Business Park, Acacia Avenue Ayala Alabang, Muntinlupa City	199.73	BANK-OWNED
3	Annapolis Ground Floor, Victoria Plaza Condominium 41 Annapolis St. Greenhills San Juan City	273.81	BANK-OWNED
4	Ayala Avenue - Rufino Ground Floor Rufino Pacific Tower Building Ayala Avenue Corner Rufino Street Makati City	150.00	LEASED
5	Banawe ACE Tower 1 Bldg. No. 21 Banawe Street, Quezon City	135.00	LEASED
6	Bel – Air Paseo No. 40 Jupiter Street Corner Paseo de Roxas Bel Air Village, Makati City	177.00	LEASED
7	BF Homes Ground Floor, Aurora IV Building, No. 30 Aguirre Ave. Corner Lirag Street BF Homes Phase 2, Parañaque City	200.00	LEASED
8	Binondo Ground Floor Downtown Center Building 520 Quintin Paredes Street Binondo, Manila	300.00	LEASED
9	Boni Avenue Ground Floor Lourdes Building 667 Boni Avenue Mandaluyong City	183.10	LEASED
10	Buendia Pasong Tamo Exportbank Plaza Exportbank Drive corner Chino Roces Ave., Makati City	283.00	BANK-OWNED

11	Cubao – P. Tuazon Ground Floor Harvester Corp.Center Building 158 P. Tuazon Avenue Cubao Quezon City	203.68	LEASED
12	Del Monte Ground Floor FRS Building 497 Del Monte Avenue, Quezon City	238.55	LEASED
13	E. Rodriguez 970 E. Rodriguez Avenue New Manila, Quezon City	120.00	LEASED
14	Emerald Avenue Unit 101B, Ground Floor, The Orient Square F. Ortigas Jr. Road Ortigas Center, Pasig City	185.80	LEASED
15	H. V. Dela Costa Ground Floor Salcedo Towers 169 H.V. Dela Costa Street Salcedo Village, Makati City	166.00	LEASED
16	Juan Luna 694-696 Juan Luna and Sta. Elena Streets Binondo, Manila	138.38	LEASED
17	Kalookan Remcor V Building, Rizal Avenue Extension Kalookan City	191.75	LEASED
18	Las Pinas 267 Alabang-Zapote Road Pamplona, Las Pinas City	240.00	LEASED
19	LRT Monumento Level 2, Ever Gotesco Grand Central Rizal Avenue, Caloocan City	38.26	LEASED
20	Malabon 14 Gov. Pascual Avenue Concepcion, Malabon	210.00	LEASED
21	Masangkay 953-955 G. Masangkay Street Binondo, Manila	185.32	LEASED
22	NAIA 707-3 Columbia Complex Building, Ninoy Aquino Avenue, Barangay Sto. Niño Parañaque City	269.22	LEASED
23	Navotas 514 North Bay Boulevard Corner Lacson Street Navotas, Metro Manila	233.00	LEASED

24	Greenhills – Ortigas Ortigas Avenue Corner Wilson Street San Juan	247.00	LEASED
25	Pasay Road Evekal Building 855 Pasay Road Corner Amorsolo Street Legaspi Village, Makati City	228.00	LEASED
26	Roosevelt Roosevelt Avenue, San Francisco Del Monte, Quezon City	250.00	LEASED
27	San Miguel Ground Floor Pacific Center Building San Miguel Avenue Ortigas Center, Pasig City	256.30	LEASED
28	Sto. Cristo Ground Floor, Kim Siu Ching Foundation Bldg. 483 Sto. Cristo Corner Jabonero Streets Binondo, Manila	188.88	LEASED
29	The Fort Ground Floor, The Luxe Residences 28th Street Corner 4th Avenue Fort Bonifacio Global City, Taguig	148.20	LEASED
30	Timog Avenue Units 1 and 2 Timog Commercial Complex Timog Corner Panay Avenues Quezon City	172.61	LEASED
31	Tutuban LH-PL23 & LH-PL25, Prime Block Mall Tutuban Center, CM Recto Avenue Manila	131.35	LEASED
32	UN Avenue Ground Floor Victoria Building 429 UN Avenue Corner LM Guerrero Street Ermita, Manila	325.00	LEASED
33	Valenzuela 95 McArthur Hi-Way, Marulas Valenzuela City,	250.00	LEASED

Luzon

	Branch	Area (sqm)	Remarks
34	Angeles 343 Sto. Rosario Street, Angeles City Pampanga	100.00	LEASED
35	Baguio G/F, La Azotea Building, 108 Session Road Baguio City	88.84	LEASED
36	Biñan Carmona Ground Floor, Great Wall Aluminum Building 9767 National Highway, Barrio Maduya, Carmona, Cavite	177.78	LEASED
37	Cabanatuan Ground Floor Unit B Gonzales Building 377 Diversion Road, Maharlika Hi-way Cabanatuan City	110.00	LEASED
38	Calamba Ground Floor, High Rise Business Center, National Highway, Barangay Halang Calamba, Laguna	120.00	LEASED
39	Dagupan Abarabar Building, Perez Boulevard Dagupan City	200.00	LEASED
40	Imus 155 Nueno Avenue, Barangay Poblacion 4 Imus, Cavite	120.00	LEASED
41	Mabalacat Mabalacat Public Market, McArthur Highway Mabalacat, Pampanga	130.00	LEASED
42	San Pedro Km 31, National Highway, Barangay Nueva San Pedro, Laguna	200.00	LEASED

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	Branch	Area (sqm)	Remarks
43	Bacolod MFC Building, Lacson Corner Henares Streets Bacolod City	304.00	LEASED
44	Cagayan de Oro Jofelmor Building Mortola Corner J.R. Borja Streets Cagayan de Oro City	162.00	LEASED
45	Cebu Business Park Ayala Life-FGU Center Cebu Business Park, Mindanao Ave. Corner Biliran Road, Cebu City	157.30	BANK-OWNED
46	Cebu I.T. Park Ground Floor TGU Tower, Asiatown I.T. Park Apas, Cebu City	227	LEASED
47	Cebu Plaridel 137 Plaridel St. Cebu City	200.00	LEASED
48	Davao Aldevinco Commercial Building No. 4 C.M. Recto Street Davao City	198.00	LEASED
49	Davao Jacinto CM Recto Corner Jacinto Street Davao City	177.78	LEASED
50	ILOILO G/F Export and Industry Bank Bldg. Cor. Quezon and Delgado Sts. Iloilo City	436.00	BANK-OWNED

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 P1,030,586 for the year ended December 31, 2010.

Item 3. Legal Proceedings

As at 31 December 2010 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

Although the Company's common shares are listed on the PSE, the trading of such shares continues to be suspended. The PSE approved the Company's request for a voluntary suspension of trading of its shares on 21 September 2010.

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

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

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

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

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

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

As at 15 April 2011, the closing price of ₱0.49 per share on August 11, 2010 was the last recorded transaction for said shares on the PSE prior to the filing hereof.

Recent Sales of Unregistered Securities. -- NONE

Holder, Dividends and Sale of Unregistered Securities

Based on the records of the Company's stock transfer office, Philippine Stock Transfer, Inc., as at 15 April 2011, there were 687 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 24 of this report.

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

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 of this report and the Audited Financial Statements and the related Notes to Financial Statements in Exhibit A of this Report.

Plan of Operation

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

As at December 31, 2010, the equity attributable to the stockholders of the parent company, as stated in the balance sheets, has declined to P4.7 million on the consolidated basis. In view of this, management is currently in the process of finalizing its plans to recapitalize the Company. Such plans are intended to be implemented within the year 2011.

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

In view of the still weak capital markets anticipated during the next twelve (12) months, the Company as well as its subsidiary, MAIC, will maintain its short-term investments in bank placements and government securities. Aside from this, MAIC will continue to focus on its corporate finance and fee-based services related to financial advisory and merger and acquisition projects during the current and succeeding years.

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

Results of Operations for the years ended December 31, 2010, 2009 and 2008

2010

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

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

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

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

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

2009

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

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

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

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

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

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

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

2008

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

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

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

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

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

Financial Condition and Changes in Financial Condition as of December 31, 2010, 2009 and 2008

2010

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

The decline was mainly due to the provision for the impairment loss in the investment of the Company's subsidiary in Exportbank. This provision resulted to a 60% decline in the investment in subsidiaries and an associate account. There was also a significant decrease of 36% in the loans and receivables account which was the result of the collection of accrued interest from deposit

placements. A decline in the cash and cash equivalents account was also noted during the year under review. As mentioned above, there was substantial reduction in the deposit placements of the Company's subsidiary due to the payment of advances to its affiliate and withdrawals for its working capital requirement.

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

As at December 31, 2010, the total shareholders' fund of the Company, on the consolidated basis amounted to only ₱4.7 million, net of minority interest. The significant decline was due to the impact of the aforementioned provision for the impairment loss in the investment of MAIC in Exportbank.

2009

There was no significant change with respect to total assets as compared to the prior year. Like in the previous year, total assets were composed mainly of investment in subsidiary and associate (80%), cash and cash equivalents (11%), available-for-sale financial assets (7%) and other assets (2%).

Although there was a collection of interest receivable from deposit placements which caused the decline in the receivable account, the proceeds from collection were not sufficient for the Company's working capital requirements. There were withdrawals of funds to make up for the deficiency in working capital which reduced the cash and cash equivalent account by 11%.

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

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

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

2008

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

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

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

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

As at December 31, 2008, the total shareholders' fund of the Company amounted to P157 million.

Prospects for 2011

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

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

Key Variable and Other Qualitative and Quantitative Factors

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

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

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

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

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

Top Five (5) Performance Indicators

December 31, 2010, 2009 and 2008

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

Note:

Y1= Current year

Y0= Previous year

Item 7. Financial Statements

The consolidated Financial Statements and related Notes to Financial Statements of Medco for the past 3 years ended 31 December 2010 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 15 April, 2011:

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	197,707,156(r)	28.24%

Mr. Dionisio E. Carpio, Jr., or in his absence, Mr. Bobby Cheng Sai Chong is appointed as the representative of Citivist 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 Citivist Asia Limited , except that they have been the regular appointees of Citivist Asia for purposes of attending and voting on behalf of Citivist 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 th Flr. Export Bank Plaza, Chino Roces Ave., Makati City	48,870,012 (record owner-foreign)	6.98%

The majority of 48,870,012 shares -foreign is 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	48,870,012 (record owner)	6.98%

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	1,008	-
Common	Solomon R. B. Castro 1406 Tower 1 Ayala Triangle Makati City	11	-
Common	The 4 directors own 1 qualifying shares	4	-

All of the directors own one (1) qualifying share, except for Mr. Dionisio E. Carpio, Jr. who owns 1,008 shares in the Company, of which 1,000 shares for himself and 8 shares held by him for and on behalf of Citivest Asia Limited; Solomon R.B. Castro owns 11 shares 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 3 to 5 of this Report.

Voting Trust Holders of 5% or More - None

Changes in Control - None

Item 12. Certain Relationships and Related Transactions (See Note 13 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 P1,030,586 for the year ended December 31, 2010.

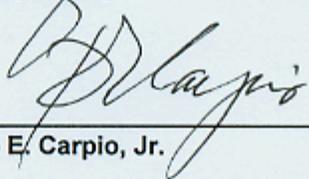
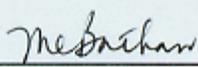
PART IV - EXHIBITS AND SCHEDULES

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

(a) Exhibits	<u>Page/Incorporation by Reference</u>
(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	1
(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 15, 2011.

<u>Signature</u>	<u>Capacity</u>
 _____	Chairman of the Board
 _____	President
 _____	Principal Accounting Officer

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

APR 15 2011

SUBSCRIBED AND SWORN to before me this _____, affiants exhibiting to me their Passport/SSS Numbers as follow:

NAMES	SSS / PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Sai Chong Cheng	752019881	July 9, 2007	United Kingdom of Great Britain and Northern Ireland
Dionisio E. Carpio, Jr	33-18894245		Manila
Ma. Lourdes B. Bathan	33-11216399		Manila

Doc. No. 782 ;
Page No. 78 ;
Book No. XII ;
Series of 2011

ATTY. GERVAZIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2011
ROLL OF ATTORNEY 40091
MCLE COMPLIANCE NO. III-0014282
IBP NO. 656155 - LIFETIME MEMBER
PTR NO. 2641658 JAN. 3, 2011 MAKATI CITY

MEDCO HOLDINGS, INC.
LIST OF TOP 20 STOCKHOLDERS
As of 15 April 2011

RANK	NAME	Nationality	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
1	Citinvest Asia Limited	Foreign	322,314,874	46.0450%
2	PCD Nominee Corporation-Filipino	Filipino	141,453,144	20.2076%
3	PCD Nominee Corporation-Non-Filipino	Foreign	56,254,012	8.0363%
4	Clariwealth Investment Limited	Foreign	34,500,000	4.9286%
5	Green Target Limited	Foreign	34,500,000	4.9286%
6	Prowealth Asia Limited	Foreign	34,500,000	4.9286%
7	Sinojade Limited	Foreign	34,500,000	4.9286%
8	Suncentury Asia Limited	Foreign	34,500,000	4.9286%
9	Li Chih Hui	Filipino	3,300,000	0.4714%
10	Rexlon Gatchalian	Filipino	1,000,000	0.1429%
11	Rodrigo, Raul	Filipino	1,000,000	0.1429%
12	Lo, Eduardo	Foreign	394,000	0.0563%
13	Cordova, Lawrence	Foreign	350,000	0.0500%
14	Belson Sec., Inc. A/C #196-358	Filipino	300,000	0.0429%
15	Marita Ibardolaza	Filipino	100,000	0.0143%
16	Sy, Leticia	Filipino	90,000	0.0129%
17	Chong, Lilian	Filipino	50,000	0.0071%
18	Bautista, Emmanuel T. &.Or Bernardita	Filipino	40,000	0.0057%
19	Uy, Arturo&/or Arnel Uy	Filipino	40,000	0.0057%
20	Guevara, Anna Georgina	Filipino	23,000	0.0033%

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



Medco Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

April 15, 2011

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

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

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


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


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


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

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

Sai Chong Cheng	752019881	July 9, 2008/United Kingdom of Great Britain and Northern Ireland
Dionisio E. Carpio, Jr.	33-08894245	Manila, Philippines
Ma. Lourdes B. Bathan	33-11216399	Manila, Philippines

Doc. No. 781
Page No. 78
Book No. XIII
Series of 2011.

ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2011
ROLL OF ATTORNEY 40091
MCLE COMPLIANCE NO. III-0014282
IBP NO. 656155 - LIFETIME MEMBER
PTR NO. 2641658 JAN. 3, 2011 MAKATI CITY

EXHIBIT “A”

AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010,
2009 AND 2008

Report of Independent Auditors

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

Report on the Financial Statements

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

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

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

Emphasis of a Matter

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

Report on Other Legal and Regulatory Requirements

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

PUNONGBAYAN & ARAULLO
By: Benjamin P. Valdez
Partner

CPA Reg. No. 0028485

TIN 136-619-880

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

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

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

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

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

April 15, 2011

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

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

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

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

1. CORPORATE MATTERS

1.01 Incorporation and Nature of Business

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

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

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

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

1.02 Approval of Financial Statements

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

1.03 Status of Operations

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.02 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

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

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

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

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

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

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

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

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

(c) *Effective Subsequent to 2010*

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

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
 - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

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

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

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

2.03 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

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

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

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

2.04 Financial Assets

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

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

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

(a) Loans and Receivables

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

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

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

(b) Available-for-sale Financial Assets

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

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

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

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

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

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

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

2.05 Financial Liabilities

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

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

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

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

2.06 Provisions and Commitments

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

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

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

2.07 Equity

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

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

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

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

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

2.08 Related Party Transactions

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

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

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

2.09 Segment Reporting

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

2.10 Revenue and Expense Recognition

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

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

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

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

2.11 Leases

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

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

2.12 Foreign Currency Transactions

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

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

2.13 Impairment of Non-financial Assets

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

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

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

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

2.14 Employee Benefits

(a) Post-employment benefits

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

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

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

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

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

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

(b) Compensated Absences

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

2.15 Earnings Per Share (EPS)

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

2.16 Income Taxes

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.01 Critical Management Judgments in Applying Accounting Policies

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

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

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

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

(b) Operating Lease

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

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

(c) Provisions and Contingencies

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

3.02 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Loans and Receivables

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

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

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

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

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

(c) Realizable Amount of Deferred Tax Assets

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

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

(d) *Impairment of Non-financial Assets*

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

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

(e) *Retirement Benefits*

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

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

4. SEGMENT REPORTING

4.01 Business Segments

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

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

4.02 Segment Assets and Liabilities

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

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

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

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

5.01 Foreign Currency Risk

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

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

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

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

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

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

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

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

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

5.02 Interest Rate Risk

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

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

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

5.03 Liquidity Risk

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

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

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

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

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

5.04 Credit Risk

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

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

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

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

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

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

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

6. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

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

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

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

7. CASH AND CASH EQUIVALENTS

This account consists of:

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

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

9. LOANS AND RECEIVABLES

This account consists of the following:

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

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

10. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

This account consists of the following:

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

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

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

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

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

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

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

11. OTHER ASSETS

This account consists of the following:

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

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

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

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

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

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

13.01 Purchase of Services

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

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

13.02 Due from Related Parties

This account consists of the following:

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

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

13.03 Due to Related Parties

This account consists of the following:

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

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

13.04 Others

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

14. EMPLOYEE BENEFITS

14.01 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits are presented below.

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

14.02 Key Management and Personnel Compensation

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

14.03 Employee Retirement Benefit Obligation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. TAXES

15.01 Current and Deferred Taxes

Tax expense for the years ended December 31 follows:

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

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

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

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

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

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

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

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

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

15.02 Optional Standard Deduction

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

15.03 Change in Applicable Tax Rate

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

16. LOSS PER SHARE

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

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

17. COMMITMENTS AND CONTINGENCIES

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

18. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010

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

18.01 Output VAT

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

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

18.02 Input VAT

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

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

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

18.03 Landed Cost, Customs Duties and Tariff Fees

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

18.04 Excise Tax

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

18.05 Documentary Stamp Tax

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

18.06 Other Taxes and Licenses

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

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

18.07 Withholding Taxes

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

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

18.08 Deficiency Tax Assessments and Tax Cases

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