SEDPI Capital Credit, Inc.

Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

CS200803725

SEC Registration Number

SEDPI Capital Credit, Inc.

(Company's Full Name)

450 J. Marzan Street, Sampaloc, Manila

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

Mariel Vincent A. Rapisura	433 - 8795
(Contact Person)	(Company Telephone Number)

12 / 31	AAFS	11 / 08
Month *Day*	(Form Type)	*Month* *Day*
(Fiscal Year)		(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

5		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Capital Credit, Inc.
450 J. Marzan Street
Sampaloc, Manila

Report on the Financial Statements

We have audited the accompanying financial statements of SEDPI Capital Credit, Inc. (the Company), which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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. 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.

SGV & Co
Ernst & Young

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SEDPI Capital Credit, Inc. as at December 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174808, January 2, 2012, Makati City

April 4, 2012

INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Capital Credit, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of SEDPI Capital Credit, Inc. (the Company), which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN

The Board of Directors
SEDPI Capital Credit, Inc.
450 J. Marzan Street
Sampaloc, Manila

We have audited the financial statements of SEDPI Capital Credit, Inc. (the Company) as of and for the year ended December 31, 2011, on which we have rendered the attached report dated April 4, 2012.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Capital Credit, Inc.
450 J. Marzan Street
Sampaloc, Manila

We have audited the financial statements of SEDPI Capital Credit, Inc. (the Company) as of and for the year ended December 31, 2011 on which we have rendered the attached report dated April 4, 2012.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has six (5) stockholders owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
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PTR No. 3174808, January 2, 2012, Makati City

April 4, 2012

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash in banks (Note 6)	**₱7,443,123**	₱3,366,213
Loans and receivables - current portion (Note 7)	**16,734,279**	33,915,483
Prepayments - current portion (Note 8)	**3,143,585**	61,000
	27,320,987	37,342,696
Noncurrent Assets		
Loans and receivables - noncurrent portion (Note 7)	**76,972,768**	40,268,478
Noncurrent asset held for sale (Note 10)	**7,191,311**	–
Prepayments - noncurrent portion (Note 8)	**2,970,000**	–
Deferred tax asset (Note 18)	**212,258**	199,608
Property and equipment (Note 9)	**40,610**	6,996,637
	87,386,947	47,464,723
	₱114,707,934	₱84,807,419
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 11)	**₱77,113,486**	₱8,306,543
Long-term debt - current portion (Note 12)	**5,750,000**	45,750,000
Income tax payable	–	113,857
Accrued expenses and other liabilities (Note 13)	**2,620,636**	6,217,456
	85,484,122	60,387,856
Noncurrent Liability		
Long-term debt - noncurrent portion (Note 12)	**11,730,000**	14,750,000
	97,214,122	75,137,856
Equity (Note 14)		
Capital stock	**14,070,987**	8,000,000
Retained earnings	**3,422,825**	1,669,563
	17,493,812	9,669,563
	₱114,707,934	₱84,807,419

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
INTEREST INCOME (Notes 6 and 7)	**₱10,892,043**	₱6,565,748
INTEREST EXPENSE (Notes 11 and 12)	**6,220,762**	2,991,879
NET INTEREST INCOME	**4,671,281**	3,573,869
OTHER INCOME	**19,444**	30,228
TOTAL OPERATING INCOME	**4,690,725**	3,604,097
EXPENSES		
Management fees (Note 19)	**1,260,000**	450,611
Taxes and licenses	**378,331**	211,026
Professional fees	**285,517**	261,800
Compensation and other benefits (Note 16)	**259,133**	575,559
Rental, light and power (Note 15)	**224,902**	192,207
Depreciation (Note 9)	**23,205**	5,801
Provision for credit losses (Note 7)	**–**	353,050
Miscellaneous (Note 17)	**374,580**	721,074
	2,805,668	2,771,128
INCOME BEFORE INCOME TAX	**1,885,057**	832,969
PROVISION FOR INCOME TAX (Note 18)	**131,795**	113,530
TOTAL COMPREHENSIVE INCOME	**₱1,753,262**	719,439

* There were no other comprehensive income items in 2011 and 2010.

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 14)	Retained Earnings	Total Equity
Balance at January 1, 2011	**₱8,000,000**	**₱1,669,563**	**₱9,669,563**
Collection of subscription receivable	**5,460,987**	**–**	**5,460,987**
Issuance of additional shares of stock	**610,000**	**–**	**610,000**
Total comprehensive income for the year	**–**	**1,753,262**	**1,753,262**
Balance at December 31, 2011	**₱14,070,987**	**₱3,422,825**	**₱17,493,812**
Balance at January 1, 2010	₱6,416,600	₱950,124	₱7,366,724
Issuance of additional shares of stock	1,583,400	–	1,583,400
Total comprehensive income for the year	–	719,439	719,439
Balance at December 31, 2010	₱8,000,000	₱1,669,563	₱9,669,563

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,885,057**	₱832,969
Adjustments for:		
Interest income	**(10,892,043)**	(6,565,748)
Interest expense	**6,220,762**	2,991,879
Depreciation expense (Note 9)	**23,205**	5,801
Unrealized foreign exchange losses	**215**	1,118
Provision for credit losses (Note 7)	**–**	353,050
Changes in operating assets and liabilities		
Increase in the amounts of:		
Loans and receivables	**(19,555,460)**	(48,580,919)
Prepayments	**(5,930,000)**	(157,387)
Increase/(decrease) in accrued expenses and other liabilities	**(3,088,503)**	223,875
Net cash used in operations	**(31,336,767)**	(50,895,362)
Interest received	**10,924,417**	6,081,630
Interest paid	**(6,729,079)**	(2,312,656)
Income taxes paid	**(380,887)**	(363,939)
Net cash used in operating activities	**(27,522,316)**	(47,490,327)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Note 9)	**(258,489)**	(6,256,724)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of :		
Loans payable	**41,329,476**	3,909,491
Long-term debt	**–**	50,500,000
Payment of:		
Loans payable	**(12,522,533)**	(1,087,619)
Long-term debt	**(3,020,000)**	–
Collection of subscription receivable (Note 14)	**5,460,987**	–
Issuance of additional shares stock (Note 14)	**610,000**	1,583,400
Net cash provided by financing activities	**31,857,930**	54,905,272
NET EFFECT OF FOREIGN EXCHANGE DIFFERENCES	**(215)**	(1,118)
NET INCREASE IN CASH IN BANKS	**4,076,910**	1,157,103
CASH IN BANKS AT BEGINNING OF PERIOD	**3,366,213**	2,209,110
CASH IN BANKS AT END OF PERIOD	**₱7,443,123**	₱3,366,213

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
NOTES TO FINANCIAL STATEMENTS

1. General Information

SEDPI Capital Credit, Inc. (the Company) is a domestic corporation incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 10, 2008. The Company is engaged in the business of providing loans to micro, small and medium enterprises.

The Company's principal place of business is located at 450 J. Marzan Street, Sampaloc, Manila.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine peso, the Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year. The issuance of and the amendments to the following Philippine Accounting Standards (PAS) and Philippine Interpretations on International Financial Reporting Interpretations Committee (IFRIC) which became effective as of 1 January 2011 did not have any impact on the accounting policies, financial position or performance of the company:

New Standards and Interpretations
- PAS 24, *Related Party Transactions* (Amendment)
- PAS 32, *Financial Instruments: Presentation* (Amendment)
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)

Improvements to PFRSs (issued 2010)
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- PFRS 3, *Business Combinations*
- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27*, Consolidated and Separate Financial Statements*
- PAS 34*, Interim Financial Statements*

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Significant Accounting Policies

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Financial instruments are recognized in the statement of financial position when cash is received by the Company or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

As of December 31, 2011 and 2010, the Company has no financial assets and financial liabilities at FVPL, AFS investments and HTM investments. The Company's financial instruments include loans and receivables and other financial liabilities.

Determination of fair value
The fair value of financial instruments traded in active markets as at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables
These are non-derivative financial assets with fixed or determinable payments that are not quoted in active market and for which the Company has no intention of trading. This accounting policy relates to statement of financial position captions, 'Cash in banks' and 'Loans and receivables'.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such receivables are recognized as 'Provision for credit losses' in the statement of comprehensive income.

Loans and receivables are classified as nonperforming or considered impaired when the principal is past due, or when, in the opinion of management, collection of interest and principal is doubtful. These receivables will not be reclassified as performing until interest and principal payments are brought current or the receivables are restructured and future payments appear assured. Receivables are considered past due when three installment payments are in arrears.

Other financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated as financial liabilities at FVPL, are classified as 'Loans payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, loans payable and similar financial liabilities not qualified as and not designated as financial liabilities at FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of Financial Assets
The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Provision for credit losses' in the statement of comprehensive income.

If subsequently, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements except for certain transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of comprehensive income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Foreign Currency Transactions and Translations
Transactions denominated in foreign currency are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated monetary assets and liabilities at year end rate translated to Philippine peso based on the Philippine Dealing System closing rate prevailing at end of the year. Gains or losses arising from foreign currency transactions and translation adjustment of foreign currency-denominated assets and liabilities are credited to or charged against current operations.

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The initial cost comprises its construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets.

The estimated useful life of computer equipment is 3 years.

The useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale are carried at the lower of its carrying amount and net realizable value (NRV), which is the fair value less costs to sell. At statement of financial position date, the Company classifies assets as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must be initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. However, events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Company's control and there is sufficient evidence that the Company remains committed to its plan to sell the asset.

Property and equipment once classified as held for sale are not depreciated or amortized. At statement of financial position date, assessment is done to determine if properties under this account qualify to be classified as an asset held for sale and are not depreciated for the year.

Impairment of Nonfinancial Assets
Property and equipment and noncurrent asset held for sale
At each statement of financial position date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of the asset's recoverable amount. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

An assessment is made at each statement of financial position date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Company as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Current taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the statement of financial position date.

Deferred taxes

Deferred tax is provided or recognized in full using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax assets to be recovered.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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 statement of financial position date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the profit or loss.

Value added tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the input tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

Equity

Share capital is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to a paid-in premium account.

Events After the Statement of Financial Position Date

Post year-end events that provide additional information about the Company's position at statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and emended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)*

The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

PAS 12, *Income Taxes - Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

PAS 19, *Employee Benefits* (Amendment)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 27, *Separate Financial Statements* (As revised in 2011)

As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (As revised in 2011)

As a consequence of the new PFRS 11, Joint Arrangements and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company is currently assessing impact of the amendments to PAS 32.

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that

applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statement as they become reasonably determinable.

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.

The Company believes the following represent a summary of these significant judgments and estimates and related impact and associated risks in its financial statements.

<u>Judgments</u>

(a) *Operating leases*
The Company has entered into a contract of lease for the office space it occupies. The Company has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower that the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of ownership of the properties which are leased out on operating lease (see Note 15).

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Fair value of the Company's financial assets and liabilities are set out in Note 5.

(c) *Determination of Company's functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Company's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Company. In making this judgment, the Company considers the following:

a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

The Company has determined that its functional currency is the Philippine peso.

Estimates

(a) *Credit losses of loans and receivables*

The Company reviews its loan portfolios and receivables at each statement of financial position date to assess whether a provision for credit losses should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

As of December 31, 2011 and 2010, the carrying value of loans and receivables amounted to ₱93.71 million and ₱74.18 million, respectively (see Note 7). Allowance for credit losses on loans and receivables amounted to ₱0.66 million as of December 31, 2011 and 2010 (see Note 7).

(b) *Estimated useful lives of property and equipment*

The Company estimates the useful lives of its property and equipment. This estimate is reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items of property and equipment.

As of December 31, 2011 and 2010, the carrying value of property and equipment amounted to ₱0.04 and ₱7.00 million, respectively (see Note 9).

(c) *Contingencies*

The Company may incur contingent liabilities arising from normal pending litigations for and against customers which are not reflected in the accompanying financial statements (see Note 20).

(d) *Impairment of property and equipment and noncurrent asset held for sale*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

The Company has assessed that there was no impairment on its property and equipment as of December 31, 2011 and 2010 (see Note 9).

(e) *Estimation of NRV of noncurrent asset held for sale*
Provision for impairment is made for noncurrent assets held for sale whose NRV are lower than their carrying value. This entails estimation of costs of completion and costs necessary to make the sale which is deducted from the net selling price of the asset to arrive at its recoverable amount.

In 2011, no provision for impairment was recognized in the statement of comprehensive income since the carrying value of noncurrent assets held for sale amounting to ₱7.19 million is lower than its NRV value of ₱7.56 million (Note 10).

(f) *Recognition of deferred tax asset*
The Company reviews the carrying amount of deferred tax asset at each statement of financial position date and reduces to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

The Company recognized deferred tax asset on the temporary differences amounting to ₱0.21 million and ₱0.20 million as of December 31, 2011 and 2010, respectively (see Note 18).

4. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by assessing the creditworthiness of its counterparties. The Company continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date. Credit applications go through a process of screening using the Company's credit standards to minimize risk.