SEDPI Capital Credit, Inc.

Financial Statements
December 31, 2009
(With Comparative Figures for 2008)

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

APPROVAL FOR PRINTING

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

(Contact Person)

(632) 433 - 8795

(Company Telephone Number)

1	2	3	1

Month *Day*

(Fiscal Year)

AAFS

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of SEDPI Capital Credit, Inc. (the Company), which comprise the statement of financial position as at December 31, 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company as of December 31, 2008 and for the ten months ended, which are presented for comparative purposes, were audited by other auditors whose report dated October 28, 2009, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SEDPI Capital Credit, Inc. as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-1
Tax Identification No. 152884-691
PTR No. 2087547, January 4, 2010, Makati City

July 12, 2010

INDEPENDENT AUDITORS' REPORT

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PTR No. 2087547, January 4, 2010, Makati City

July 12, 2010

SEDPI CAPITAL CREDIT, INC.

STATEMENT OF FINANCIAL POSITION

(With Comparative Figures for 2008)

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash in banks (Note 6)	**₱2,209,110**	₱641,599
Loans and receivables (Note 7)	**25,471,974**	15,317,759
	27,681,084	15,959,358
Noncurrent Assets		
Construction-in-progress (Note 8)	**745,714**	–
Deferred tax asset (Note 15)	**93,358**	56,494
	839,072	56,494
	₱28,520,156	₱16,015,852
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 9)	**₱5,484,671**	₱2,769,253
Long-term debt - current portion (Note 10)	**2,500,000**	–
Income tax payable	**258,017**	161,972
Accrued expenses and other liabilities (Note 11)	**2,038,696**	1,517,371
	10,281,384	4,448,596
Noncurrent Liability		
Long-term debt - noncurrent portion (Note 10)	**7,500,000**	5,000,000
	17,781,384	9,448,596
Equity (Note 12)		
Capital stock	**6,416,600**	6,397,800
Deposit for future stock subscription	**3,372,048**	–
Retained earnings	**950,124**	169,456
	10,738,772	6,567,256
	₱28,520,156	₱16,015,852

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009
(With Comparative Figures for 2008)

	2009 (One Year)	2008 (Ten Months)
INTEREST INCOME (Notes 6 and 7)	**₱3,983,017**	₱1,369,116
INTEREST EXPENSE (Notes 9 and 10)	**1,217,393**	481,245
NET INTEREST INCOME	**2,765,624**	887,871
EXPENSES		
Professional fees	**750,081**	150,000
Management fees (Note 16)	**489,070**	155,991
Rental, light and power (Note 13)	**136,055**	9,971
Provision for credit losses (Note 7)	**122,880**	188,313
Transportation and travel	**67,545**	–
Compensation and fringe benefits	**52,886**	54,920
Taxes and Licenses	**43,273**	17,201
Miscellaneous (Note 14)	**100,438**	36,541
	1,762,228	612,937
INCOME BEFORE INCOME TAX	**1,003,396**	274,934
PROVISION FOR INCOME TAX (Note 15)	**222,728**	105,478
TOTAL COMPREHENSIVE INCOME*	**₱780,668**	₱169,456

* There were no other comprehensive income items in 2009 and 2008.

The Company was incorporated and started commercial operations on March 10, 2008.

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009
(With Comparative Figures for 2008)

	Capital Stock (Note 12)	Deposit for Future Stock Subscription (Note 12)	Retained Earnings (Note 12)	Total Equity
Balance at January 1, 2009	**₱6,397,800**	**₱–**	**₱169,456**	**₱6,567,256**
Issuance of additional capital stock	**18,800**	**–**	**–**	**18,800**
Deposit for future stock subscription	**–**	**3,372,048**	**–**	**3,372,048**
Total comprehensive income for the year	**–**	**–**	**780,668**	**780,668**
Balance at December 31, 2009	**₱6,416,600**	**₱3,372,048**	**₱950,124**	**₱10,738,772**
Balance at March 10, 2008	₱500,000	₱–	₱–	₱500,000
Issuance of additional capital stock	5,897,800	–	–	5,897,800
Total comprehensive income for the year	–	–	169,456	169,456
Balance at December 31, 2008	₱6,397,800	₱–	₱169,456	₱6,567,256

The Company was incorporated and started commercial operations on March 10, 2008.

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009
(With Comparative Figures for 2008)

	2009 (One Year)	2008 (Ten Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,003,396**	₱274,934
Adjustments for:		
Provision for credit losses (Note 7)	**122,880**	188,313
Changes in operating assets and liabilities		
Increase in the amounts of:		
Loans and receivables	**(10,277,095)**	(15,506,072)
Accrued expenses and other liabilities	**521,324**	1,517,371
Net cash used in operations	**(8,629,495)**	(13,525,454)
Income taxes paid	**(163,546)**	–
Net cash used in operating activities	**(8,793,041)**	(13,525,454)
CASH FLOW FROM INVESTING ACTIVITIES		
Payment for construction-in-progress (Note 8)	**(745,714)**	–
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of long-term debt	**5,000,000**	5,000,000
Deposit for future stock subscription (Note 12)	**3,372,048**	–
Net availment of loans payable (Note 9)	**2,715,418**	2,769,253
Issuance of additional capital stock (Note 12)	**18,800**	6,397,800
Net cash provided by financing activities	**11,106,266**	14,167,053
NET INCREASE IN CASH IN BANKS	**1,567,511**	641,599
CASH IN BANKS AT BEGINNING OF PERIOD	**641,599**	–
CASH IN BANKS AT END OF PERIOD	**₱2,209,110**	₱641,599

The Company was incorporated and started commercial operations on March 10, 2008.

See accompanying 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 pesos, the Company's functional and presentation currency.

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 except for the following PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which were adopted as of January 1, 2009:

PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company has elected to present single statement of comprehensive income.

Amendments to PFRS 7, *Improving Disclosures about Financial Instruments*
The amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures and fair value measurement disclosures are presented in Notes 4 and 5, respectively.

The issuance of and amendments to the following PAS and Philippine Interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

- PAS 23, *Borrowing Costs* (Revised)
- PAS 32 and PAS 1 Amendments, *Puttable Financial Instruments and Obligations Arising on Liquidation*

- PFRS 1 and PAS 27 Amendments, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2 Amendment, *Vesting Conditions and Cancellations*
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives*

Improvements to PFRS in 2008

The omnibus amendments to PFRSs issued in 2008 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Company.

Improvements to PFRS in 2009

PAS 18, *Revenue*
The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
- has primary responsibility for providing the goods or service;
- has inventory risk;
- has discretion in establishing prices; or
- bears the credit risk.

The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The revenue recognition policy has been updated accordingly.

Significant Accounting Policies

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
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 reporting date. As of December 31, 2009 and 2008, the Company had no financial assets and financial liabilities at FVPL, AFS investments and HTM investments.

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 ask price for short positions), without any deduction for transaction costs. When current bid and ask 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.

'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 'Miscellaneous income' in the statement of comprehensive income. 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 nonderivative 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 liabilities under 'Bills payable', '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, bills payable, 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.

Derecognition of Financial Assets and Liabilities

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.

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.

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.

Construction-in-progress

Construction-in-progress is stated at cost less 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.

An item of construction-in-progress 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.

Impairment of Construction-in-progress

At each reporting 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.

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).

The 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
Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity.

Current tax
Current tax assets and liabilities for the current and prior periods 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 tax
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.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

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.

Equity
Capital stock 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 Reporting Period
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.

Future Changes in Accounting Policies
The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

New Standards and Interpretations

PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)
The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to

a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, 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 rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Amendments to Standards

PAS 39 Amendment - *Eligible Hedged Items*
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRS
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning or after January 1, 2010 except when otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. The improvement to PAS 38 also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments*; *Recognition and Measurement*: clarifies the following:
  - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
  - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
  - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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 judgments and assumptions used in arriving at the estimates to change, the effects of any change in judgments and 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.

<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.

(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.

<u>Estimates</u>

(a) *Credit losses of loans and receivables*

The Company reviews its loan portfolios and receivables at each reporting 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, 2009 and 2008, loans and receivables are carried at ₱25.47 million and ₱15.32 million, respectively (see Note 7). As of December 31, 2009 and 2008, allowance for credit losses on loans and receivables amounted to ₱0.31 million and ₱0.19 million (see Note 7).

(b) *Impairment of construction-in-progress*
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 represents the asset's (or cash generating units) value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

As of December 31, 2009, the carrying value of the construction-in-progress amounted to ₱0.75 million.

(c) *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. Recognized deferred tax asset as of December 31, 2009 and 2008 amounted to ₱0.09 million and ₱0.06 million (see Note 15).

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.

<u>Credit Risk</u>
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.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown net of allowance for credit losses.

	2009	2008
Loans and receivables		
Receivables from customers:		
Corporate	**₱22,484,267**	₱14,273,961
Individual	**1,879,705**	1,043,798
Other receivables:		
Advances to shareholder	**967,829**	–
Accrued interest receivable	**140,173**	–
Cash in banks	**2,209,110**	641,599
	₱27,681,084	₱15,959,358

The tables below show the credit quality per class of the Company's loans and receivables, gross of allowance for credit losses:

	2009				
	Neither past due nor impaired			**Past due or individually impaired**	**Total**
	High grade	**Standard grade**	**Sub-standard grade**		
Loans and receivables:					
Receivables from customers:					
Corporate	**₱11,579,587**	**₱6,166,667**	**₱5,018,087**	**₱–**	**₱22,764,341**
Individual	**1,910,824**	**–**	**–**	**–**	**1,910,824**
Other receivables:					
Advances to shareholder	**967,829**	**–**	**–**	**–**	**967,829**
Accrued interest receivable	**49,742**	**57,428**	**33,003**	**–**	**140,173**
Cash in banks	**2,209,110**	**–**	**–**	**–**	**2,209,110**
	₱16,717,092	**₱6,224,095**	**₱5,051,090**	**₱–**	**₱27,992,277**

	2008				
	Neither past due nor impaired			Past due or individually impaired	Total
	High grade	Standard grade	Sub-standard grade		
Loans and receivables:					
Receivables from customers:					
Corporate	₱–	₱9,111,948	₱5,150,700	₱177,000	₱14,439,648
Individual	1,055,111	–	–	11,313	1,066,424
Cash in banks	641,599	–	–	–	641,599
	₱1,696,710	₱9,111,948	₱5,150,700	₱188,313	₱16,147,671

The Company's bases in grading its loans and receivables follow:

High grade - pertains to receivables with low probability of default. Counterparties are safe and sound and are resistant to external shocks and financial upheavals, and can really adapt to adverse developments in its operating environment.

Standard grade - pertains to receivables with low to moderate default risk. Counterparty has safe and sound operational policies and procedures and can withstand the ups and downs of the business cycle. There are some operational procedures that need to be fixed; otherwise they could negatively affect the operations.

Substandard grade - pertains to receivables that require varying degrees of special attention and default risk is of great concern. While acceptable, counterparties have quite a few operational policies, practices and procedures that need to be strengthened or rectified. These need to be corrected on a priority basis, or there will be further deterioration which could put the counterparty at risk.

Past due or individually impaired - this pertains to receivables that defaulted in several payments. Counterparty has serious operational problems that need to be addressed on an urgent basis; otherwise there is a high risk of failure. Counterparty with this score needs close supervision by the appropriate regulatory, oversight authority, or lender.

As of December 31, 2009 and 2008, there are no past due but not impaired loans and receivables.

Liquidity Risk
The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity risk is managed by holding sufficient liquid assets to ensure short-term funding requirements are met. The Company has non-interest bearing obligations. Deposits with banks are made on a short-term basis with almost all being available on demand or within three months.

Analysis of financial assets and financial liabilities by remaining maturities
The tables below summarize the maturity profile of the Company's financial assets and financial liabilities based on remaining contractual undiscounted cash flows:

	2009				
	On demand	**Up to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets					
Cash in banks	**₱2,209,110**	**₱–**	**₱–**	**₱–**	**₱2,209,110**
Loans and receivables					
Receivables from customers:					
Corporate	–	**4,752,749**	**14,281,587**	**8,920,841**	**27,955,177**
Individual	**306,000**	**739,650**	**1,192,484**	**9,250**	**2,247,384**
Other receivables:					
Advances to shareholder	**967,829**	–	–	–	**967,829**
Accrued interest receivable	**140,173**	–	–	–	**140,173**
	₱3,623,112	**₱5,492,399**	**₱15,474,071**	**₱8,930,091**	**₱33,519,673**
Financial Liabilities					
Loans payable	**₱–**	**₱1,230,844**	**₱4,815,836**	**₱–**	**₱6,046,680**
Long-term debt	–	–	**3,250,000**	**8,550,000**	**11,800,000**
Other liabilities:					
Advances from shareholder	**669,268**	–	–	–	**669,268**
Accrued interest payable	**547,515**	–	–	–	**547,515**
Due to Social Enterprise Development Partnerships, Inc. (SEDPI)	**41,432**	–	–	–	**41,432**
	₱1,258,215	**₱1,230,844**	**₱8,065,836**	**₱8,550,000**	**₱19,104,895**

	2008				
	On demand	Up to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets					
Cash in banks	₱641,599	₱–	₱–	₱–	₱641,599
Loans and receivables					
Receivables from customers:					
Corporate	–	3,860,667	8,123,960	5,086,860	17,071,487
Individual	–	667,686	584,507	48,000	1,300,193
Other receivables:					
Advances to shareholder	–	–	–	–	–
Accrued interest receivable	–	–	–	–	–
	₱641,599	₱4,528,353	₱8,708,467	₱5,134,860	₱19,013,279
Financial Liabilities					
Loans payable	₱–	₱276,923	₱2,848,694	₱–	₱3,125,617
Long-term debt	–	–	400,000	5,500,000	5,900,000
Other liabilities:					
Advances from shareholder	996,322	–	–	–	996,322
Accrued interest payable	422,786	–	–	–	422,786
	₱1,419,108	₱276,923	₱3,248,694	₱5,500,000	₱10,444,725

<u>Market Risk</u>
Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Company focuses on the following market risk areas such as interest rate risk and foreign currency risk.

Interest rate risk
The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. There are no floating rate financial assets and liabilities. Cash in banks earn interest at prevailing market rates. The Company's exposure to interest rate risk is minimal.

Foreign currency risk
The Company's policy is to maintain foreign currency exposure within acceptable. The Company's exposure to foreign exchange risk is minimal.

5. Fair Value Measurement

The methods used by the Company in estimating the fair value of the financial instruments follow:

Cash in banks - The carrying amounts approximate fair values in view of the relatively short term maturities of these financial assets.

Loans and receivables - Fair values of receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of receivables. The carrying amounts of other receivables approximate fair values due to short-term nature of these receivables.

Accrued expenses and other liabilities - The carrying amounts approximate fair values due to their short-term maturities.

Loans payable and long-term debt - Fair values are estimated by discounting the future contractual cash flows at current market interest rate that is available to the Company for similar financial instruments.

The following table summarizes the carrying amounts and fair values of the financial assets and liabilities:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans Receivables:				
Cash in banks	**₱2,209,110**	**₱2,209,110**	₱641,599	₱641,599
Receivables from customers:				
Corporate	**22,764,341**	**23,834,023**	14,273,961	17,385,079
Individual	**1,910,824**	**2,115,570**	1,043,798	1,370,201
Other receivables:				
Advances to shareholder	**967,829**	**967,829**	–	–
Accrued interest receivable	**140,173**	**140,173**	–	–
Total financial assets	**₱27,992,277**	**₱29,266,705**	₱15,959,358	₱19,396,879
Financial Liabilities				
Loans payable	**₱5,484,671**	**₱5,697,225**	₱2,769,253	₱2,903,957
Long-term debt	**10,000,000**	**10,796,685**	5,000,000	5,387,123
Advances from shareholder	**669,268**	**669,268**	996,322	996,322
Accrued interest payable	**547,515**	**547,515**	422,786	422,786
Due to SEDPI	**41,432**	**41,432**	–	–
Total financial liabilities	**₱16,742,886**	**₱17,752,125**	₱9,188,361	₱9,710,188

For financial instruments recorded at fair value, the Company uses the following three-level fair value hierarchy based on the source of inputs on their valuation:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 - techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2009 and 2008, the Company has no financial instruments recognized at fair value.

6. Cash in Banks

This account consists of:

	2009	2008
Peso-denominated	**₱2,185,805**	₱641,599
US dollar-denominated	**23,305**	–
	₱2,209,110	₱641,599

Cash in banks earn from local banks at prevailing bank deposit rates with ranges from 0.25% to 0.63% in 2009 and 2008. Interest income on cash in banks amounted to ₱6,299 and ₱810 in 2009 and 2008, respectively.

7. Loans and Receivables

This account consists of:

	2009	2008
Receivables from customers:		
Corporate	**₱22,764,341**	₱14,450,961
Individual	**1,910,824**	1,055,111
	24,675,165	15,506,072
Other receivables:		
Advances to shareholder	**967,829**	–
Accrued interest receivable	**140,173**	–
	25,783,167	15,506,072
Less allowance for credit losses	**311,193**	188,313
	₱25,471,974	₱15,317,759

Reconciliation of the allowance for credit losses on receivables from customers by class follow:

	2009			2008		
	Corporate	Individual	Total	Corporate	Individual	Total
Balance at beginning of year	**₱177,000**	**₱11,313**	**₱188,313**	₱–	₱–	₱–
Provision for credit losses	**103,074**	**19,806**	**122,880**	177,000	11,313	188,313
Balance at end of year	**₱280,074**	**₱31,119**	**₱311,193**	₱177,000	₱11,313	₱188,313

Interest income on receivable from customers amounted to ₱3.71 million in 2009 and ₱1.37 million in 2008.

8. Construction-in-Progress

This account represents total payments for labor and material incurred as of December 31, 2009 for the construction of office building of the Company.

9. Loans Payable

This account pertains to borrowings from Stichting-Habagat, Cancer Warriors Foundation and certain individuals.

The loans payable are subject to annual fixed interest rates ranging from 6.00% to 12.00% and from 5.00% to 10.00% in 2009 and 2008, respectively. As of December 31, 2009 and 2008, loans payable amounted to ₱5.48 million and ₱2.77 million, respectively. Interest expense incurred amounted to ₱0.38 million and ₱0.48 million in 2009 and 2008, respectively.

10. Long-term Debt

This account represents debt obtained from a microfinance funder mainly to finance the Company's working capital requirements in providing loans to emerging microfinance institutions.

The agreement stipulates that the debt will be received by the Company in two equal installments of ₱5.00 million on October 27, 2008 and January 29, 2009. The debt bears fixed interest rate of 8.00%, payable semi-annually; the first payment of interest to be made six months after the Company has received the first installment. The principal shall be repaid in eight equal installments of ₱1.25 million starting April 27, 2010.

Interest expense on long-term debt amounted to ₱0.84 million in 2009.

11. Accrued Expenses and Other Liabilities

This account consists of:

	2009	2008
Advances from shareholder (Note 16)	**₱669,268**	₱996,322
Accrued interest payable	**547,515**	422,786
Output value-added tax	**407,813**	–
Accrued expenses	**351,511**	98,263
Due to SEDPI (Note 16)	**41,432**	–
Withholding tax payable	**17,069**	–
Expanded tax payable	**4,088**	–
	₱2,038,696	₱1,517,371

12. Equity

a. Capital Stock
   As of December 31, 2009 and 2008, the Company has an authorized 40,000 common shares with a par value of ₱200.00 per share.

   The movements in the number of shares and capital stock amount follow:

	2009		2008	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of year	**31,989**	**₱6,397,800**	2,500	₱500,000
Issuance of shares of stock	**94**	**18,800**	29,489	5,897,800
Balance at end of year	**32,083**	**₱6,416,600**	31,989	₱6,397,800

b. Deposit for future stock subscription
   On September 17, 2009, the board of directors (BOD) approved the proposed increase in authorized capital stock from 40,000 common shares to 100,000 common shares with a par value of ₱200 per share. This was recorded as Deposits for future stock subscription in the amount of ₱3.37 million. The Company is planning to submit its application for approval of the increase in capital stock to SEC in 2010.

Capital Management
The primary objectives of the Company for capital management are to ensure its ability to continue as a going concern; to maintain quality ratios especially liquidity; and to ensure compliance with SEC regulations.

The BOD is responsible for managing the Company's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The Company's objective when managing capital (which consists of total equity as shown in the statement of financial position) is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt consists of total liabilities as shown in the statement of financial position less cash.

Pursuant to provisions of Republic Act (RA) No. 9474 also known as *Lending Company Regulation Act of 2007*, Lending companies shall be organized in the form of stock corporations at least fifty one percent (51.00%) of the voting stock of which is owned by citizens of the Philippine; shall have a minimum paid-up capital of one million pesos (₱1.0 million); shall use at least 51.00% of their funds for direct lending purposes and shall grant loans from its own capital or from funds sourced from not more than nineteen (19) persons.

As of December 31, 2009 and 2008, the Company is in compliance with such regulations.

13. Leases

The Company leases the office premises it occupies from its affiliate, SEDPI (see Note 16). The lease contract is for a period of one (1) year, renewable upon mutual agreement of both parties.

Rental expense included in 'Rental, light and power' amounted to ₱0.09 million in 2009.

14. Miscellaneous Expenses

This account consists of:

	2009	2008
Marketing and advertising	**₱22,500**	₱–
Entertainment, amusement and recreation (EAR) (Note 15)	**20,319**	–
Bank service charges	**18,358**	–
Repairs and maintenance	**13,364**	–
Dues and fees	**12,113**	–
Insurance	–	18,417
Others	**13,784**	18,124
	₱100,438	₱36,541

Others consist of office supplies, penalties and photocopy expenses.

15. **Income Taxes**

Current tax regulations provide that RCIT rate shall be 35.00% until December 31, 2008. Effective January 1, 2009, the RCIT rate shall be 30.00%. A final income tax at the rate of 20.00% is imposed on gross interest income on deposit. Interest expense allowed as a deductible expense is reduced by an amount equivalent to 42.00% of interest income subject to final tax until December 31, 2008 and 33.00% starting January 1, 2009.

The optional standard deduction (OSD) under RA no. 9504 may be elected as an alternative deduction in computing for the RCIT. For 2009 and 2008 RCIT computation, the Company elected to claim itemized expense deductions instead of the OSD equivalent to 40.00% of gross income.

The regulations also provide for MCIT of 2.00% on modified gross income which is paid if higher than the RCIT for the year. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against any RCIT liability for the next three years. The Company is not yet subject to MCIT in 2009 and 2008. The Company will be subjected to MCIT in 2011. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

Current tax regulations limit the amount of EAR expenses that can be claimed as deductions for income tax purposes to 1.00% of net revenue (gross revenue less discounts, if any) for sellers of services. EAR expenses amounting to ₱20,319 in 2009, included under ‘Miscellaneous expense’ in the statement of comprehensive income are within the prescribed regulatory limit.

The provision for income tax consists of:

	2009	2008
Current	**₱259,592**	₱161,972
Deferred	**(36,864)**	(56,494)
	₱222,728	₱105,478

As of December 31, 2009 and 2008, deferred tax asset amounting to ₱0.09 million and ₱0.06 million pertains to allowance for credit losses on loans and receivables.

The reconciliation between the statutory income tax and the effective income tax follows:

	2009	2008
Statutory income tax	**₱301,019**	₱96,227
Tax effect of:		
Nontaxable interest income	**(79,258)**	–
Interest income subjected to final tax	**(787)**	(284)
Nondeductible expense	**975**	9,416
Nondeductible interest expense	**779**	119
Effective income tax	**₱222,728**	₱105,478

16. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties. The effects of these transactions are shown under the appropriate accounts in the financial statements as follows:

			Elements of Transactions			
			Statement of Financial Position		Statement of Comprehensive Income	
Related Party	Nature of Related Party Relationship	Nature of Transaction	**2009**	2008	**2009**	2008
SEDPI	Affiliate	Due to account	**₱41,432**	₱–	**₱–**	**₱–**
		Management fees			**489,070**	**155,911**
		Rent expense	–	–	**90,000**	–
Other	Shareholder	Advances to shareholder	**967,829**	–	–	–
		Advances from shareholder	**669,268**	996,322	–	–

The Company obtains operating expense advances from SEDPI. Also, the Company has advances to and from its shareholder which arises as a result of the Company's normal operations. These advances are settled based on the Company's availability funds.

17. Approval for the Release of the Financial Statements

The accompanying financial statement as of and for the year ended December 31, 2009 was authorized for issue by the President of the Company based on the authority given by the BOD on July 12, 2010.