Tel. (632) 899 4145 / 890 0526 Fax. (632) 899 4121

# COVER SHEET

2 8 7 8 8

S.E.C. Registration Number

sd

M A K A T I F I N A N C E

C O R P O R A T I O N

(Company's Full Name)

2 N D F l o o r , M a k a t i

F i n a n c e C e n t e r 7 8 2 3

M a k a t i A v e . , M a k a t i C i t y

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

**MERLINDA V. CUNANAN**

Contact Person

**897-0749**

Company Telephone Number

| 1 2 | 3 1 |
|---|---|
| *Month* | *Day* |

Fiscal Year

**2009**

**Amended SEC Form 20 - IS (Definitive Info. Statement)**

FORM TYPE

| 0 6 | |
|---|---|
| *Month* | *Day* |

Annual Meeting

Secondary License Type, If Applicable

C R M D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

**MAKATI FINANCE**
FINANCIAL SERVICES AND ADVISORY

## NOTICE OF THE 2009 ANNUAL STOCKHOLDERS' MEETING

TO ALL SHAREHOLDERS
MAKATI FINANCE CORPORATION

NOTICE IS HEREBY GIVEN that the Annual Stockholders' Meeting of Makati Finance Corporation, will be held on **4 June 2009, Thursday, 5:00 p.m.**, at the Ascott Makati (formerly Oakwood Premier), Ayala Center, Makati City, with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held on 19 June 2008
4. Presentation of the 2008 Annual Report and 2008 Audited Financial Statements
5. Approval of the 2008 Annual Report and 2008 Audited Financial Statements
6. Ratification of acts, contracts, investments and resolutions of the Board of Directors and Management since the last Annual Stockholders' Meeting
7. Declaration of Dividends
8. Amendment of the By-Laws to change the Date of the Annual Stockholders Meeting
9. Election of Directors
10. Appointment of Independent External Auditors
11. Other Matters
12. Adjournment

The record date for stockholders entitled to notice of and vote at the said meeting is 7 May 2009. Registration for the meeting shall be at 4:30 p.m. Please present any proof of identification, such as driver's license, passport, or company I.D. to facilitate registration.

Any instrument authorizing a proxy to act as such shall be submitted to and received at the principal office of the corporation on or before 27 May 2009, addressed to the attention of The Corporate Secretary. Corporate Shareholders are required to submit duly notarized Board Resolutions designating their proxies. Validation of proxies shall be held on 28 May 2009 at 10:30 a.m. at the principal office of the Corporation. No proxy is being solicited.

12 May 2009

ATTY. D. ENRIQUE O. CO
*Corporate Secretary*

2/F Makati Finance Bldg., 7823 Makati Avenue, Makati City 1200 Philippines
Telephone Nos. (632) 899 4145 / 890 0526 Fax No. (632) 899 4121
Website: www.makatifinance.com

SECURITIES AND EXCHANGE COMMISSION

**SEC FORM 20-IS**

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [ / ] Definitive Information Statement

2. Name of Registrant as specified in its charter **MAKATI FINANCE CORPORATION**

3. **MAKATI CITY, PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **28788**

5. BIR Tax Identification Code **000-473-966**

6. **7823 MAKATI AVENUE, MAKATI CITY** **1210**
   Address of principal office Postal Code

7. Registrant's telephone number, including area code (062) 890-06-21

8. **June 04, 2009 5:00 p.m.** at **Ascott Makati (formerly Oakwood Premier), 6th Floor Glorietta 4, Ayala Ave., Makati City**
   Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders May 12, 2009 .

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| **COMMON STOCK** | **191,042,689** |

11. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes / No ______

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
    PHILIPPINE STOCK EXCHANGE Common Stock

## INFORMATION REQUIRED IN INFORMATION STATEMENT

### Statement That Proxies are Not Solicited

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

## GENERAL INFORMATION

### DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS

The Special Stockholders' Meeting of the Company will be held on June 04, 2009, 5:00 p.m. at the Ascott Makati (formerly Oakwood Premier), $6^{th}$ Floor Glorietta 4, Ayala Avenue, Makati City. The complete mailing address of the principal office of Makati Finance Corporation is: 7823 Makati Avenue, Makati City, Philippines. This information statement is to be sent to the Company's stockholders on May 12, 2009.

### DISSENTERS' RIGHT OF APPRAISAL

The procedure to be followed in exercising the appraisal right of dissenting stockholders shall be in accordance with Section 81 to 86 of the Corporation Code. A stockholder must have voted against any proposed corporate action in order to avail himself of the appraisal right.

There are no matters to be taken up in the stockholders' meeting which would warrant exercise of appraisal.

### INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

Other than their election to the Board of directors, none of the incumbent Directors or Officers of the Company has any substantial interest, direct or indirect, in any matter to be acted upon in the Special Stockholders' meeting.

None of the Company's Directors has informed the Corporation in writing that he intends to oppose any action to be taken in the Annual Stockholders' Meeting.

## CONTROL AND COMPENSATION INFORMATION

### VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Total number of common shares outstanding as of March 31,2009 is 191,042,689 with a par value of P1 per share. Pursuant to Section 4 of the Company's Amended By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock standing in his name in the books of the Company on the Record Date as fixed by the Board of Directors. Every stockholder voting on the election of directors may cumulate such number of votes in accordance with Section 24 of the Corporation Code.

Stockholders of record of the Company as of May 7, 2009 ("the Record Date") shall be entitled to notice of, and to vote at, the Special Stockholders' Meeting.

**SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS (MORE THAN 5% AS OF MARCH 31, 2009)**

| Title of Class | Name and Address of Record Owner | Name/Address of Beneficial Owner | Citizenship | Amount of Ownership | Percentage Held |
|---|---|---|---|---|---|
| Common Shares | Amalgamated Investment Bancorporation -11/F Multinational Bancorporation Bldg. 6805 Ayala Avenue, Makati City (Stockholder) | Same | Filipino | 136,465,249 | 71.43% |
| Common Shares | MF Pikeville Holdings/Pikeville Bancshares - 11/F Multinational Bancorporation Bldg. 6805 Ayala Avenue, Makati City (Stockholder) | Same | Filipino | 13,559,452 | 7.10% |
| | | | | | |
| | TOTAL | | | 150,024,701 | 78.53% |

**SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT (AS OF MARCH 31, 2009)**

| Title of Class | Name of Beneficial Owner | Amount of Ownership | Nature of Ownership | Citizenship | Percentage Ownership |
|---|---|---|---|---|---|
| Common | Michael Wee Soon Lock | 7,905,176 | R | Singaporean | 4.14% |
| Common | Rene B. Benitez | 4,552,793 | R | Filipino | 2.38% |
| Common | Joel S. Ferrer | 1,924,496 | R | Filipino | 1.01% |
| Common | Teresita B. Benitez | 663,128 | R | Filipino | 0.35% |
| Common | Max O. Borromeo | 943,150 | R | Filipino | 0.49% |
| Common | Isidro B. Benitez | 241,906 | R | Filipino | 0.13% |
| Common | Juan Carlos del Rosario | 29 | R | Filipino | 0.00% |
| Common | Francisco C. Eizmendi Jr. | 15 | R | Filipino | 0.00% |
| Common | Eugenio E. Reyes | 15 | R | Filipino | 0.00% |
| Common | Albert J. Batacan | 1,797 | R | Filipino | 0.00% |
| Common | Alfredo Reyes | 18,966 | R | Filipino | 0.01% |
| | All directors & officers as a group | 16,251,471 | | | 8.51% |

The representative of Amalgamated Investment Bancorporation entitled to vote is Mr. Juan Carlos del Rosario. The representative of MF Pikeville Holdings/Pikeville Bancshares entitled to vote is Mr. Rene B. Benitez. There are no directors and nominees holding more than 5% ownership affected by any acquisition, business combination or other reorganization, and no other commitments with respect to issuance of shares.

No changes in control has occurred since the beginning of the last fiscal year.

**NOMINATIONS TO THE BOARD**

Pursuant to the Company's Corporate Governance Manual, the Nomination Committee shall pre-screen and shortlist all candidates to be nominated to become members of the Board of Directors. The Nomination Committee shall consider the guidelines set forth in the Manual. This is in accordance with memorandum circular no.16 of the Securities and Exchange Commission. Nominations were screened by the Nomination Committee members. The incumbent members of the Board of directors are expected to be nominated for the term 2009-2010. The nomination committee is comprised of the following: Mr. Rene B. Benitez, Chairman and Mr. Max O. Borromeo and Mr.

Francisco Eizmendi, Jr. as members.

The following are nominated as Directors of the Company:

1. Dr. Isidro B. Benitez
2. Mr. Juan Carlos del Rosario
3. Ms. Teresita B. Benitez
4. Mr. Max O. Borromeo
5. Mr. Rene B. Benitez
6. Mr. Joel S. Ferrer
7. Mr. Francisco Eizmendi Jr.
8. Atty. Eugene Reyes
9. Mr. Micheal Wee Soon Lock

Pursuant to SRC Rule No. 38 on procedures or nomination and election of independent directors, Atty. Eugene Reyes and Mr. Francisco Eizmendi, Jr. are nominated by Mr. Rene B. Benitez as independent directors. There are no relations between Mr. Benitez, Atty. Reyes and Mr. Eizmendi up to the fourth degree either by consanguinity or affinity.

**DIRECTORS AND EXECUTIVE OFFICERS**

The Directors elected who shall serve for a term of one (1) year or until their successors shall have been elected, and their business experience for the last five years:

***Dr. Isidro B. Benitez**, 81, Filipino,* is the Chairman of the Board. Dr. Benitez has served as a Director since the Company's incorporation. He is also the Chairman of Obstetrics and Gynecology of the Makati Medical Center, MERG Realty Corporation and Amalgamated Development Corporation. Concurrently, Dr. Benitez is the Vice-Chairman of AIB and a Director of Nationwide Health Systems. He was formerly the Chairman of Obstetrics and Gynecology of the University of the Philippines / Philippine General Hospital where he worked from 1955 to 1988. He is presently the Chairman of the Examining Board of SGOP, Philippines, and a member of the American College of Surgeons, the Philippine College of Surgeons and the Philippine OB-Gyne Society. He obtained his Doctor of Medicine degree from the University of the Philippines, specialized in Obstetrics and Gynecology at John Hopkins University, Baltimore, Maryland and took courses in the Senior Executive MBA Program of the Ateneo de Manila University. He is also a director of Dearborn Motors, Inc. and Vice Chairman of Amalgamated Investment Bancorporation.

***Mr. Juan Carlos del Rosario,*** 58, Filipino, is the Vice Chairman of the Board. He has served as a Director since 1996. Mr. Del Rosario is currently the Chairman of AIB and Inter Global Alliances Inc. He was formerly the Senior Vice President and Chief Investment Officer of the Philippine American Life Insurances Co. (AIG Philippines) where he served as a member of the Board of Directors in several of its subsidiaries and affiliated companies. He was a Director of AIG Investment Corporation (Asia) Ltd., Cosmos Bottling Co., Bacnotan Cement Corporation, Investment Capital Corporation of the Philippines and Science Park of the Philippines Inc. Prior to joining the AIG/Philamlife Group, he had worked for 17 years for Chase Manhattan Bank in New York Head Office, and overseas postings in Saudi Arabia, Brazil and the Philippines. He is a graduate of De La Salle University, Manila with Bachelor of Arts (History) and Bachelor of Science (Commerce) degrees. He received his MBA (Finance and Marketing) from Columbia University, New York City and also completed the Executive Development Program at Cornell University Graduate School of Management Ithaca, New York and the Strategic Business Economics Program at the University of Asia and the Pacific, Manila.

***Ms. Teresita B. Benitez**, 74, Filipino,* is the Company's President. She has been a Director since 2001. She had previously worked for the Philippine Bank of Commerce as Assistant Personnel Manager and United

Coconut Planters Bank as Assistant Corporate Secretary. She had also been a director at Asiatrust Bank and Amalgamated Development Corporation. At present she is the Treasurer and Director of Nationwide Health Systems and FLB Development Corporation and the President of MERG Realty and Development Corporation. Ms. Benitez obtained a Bachelor of Science degree in Commerce from the University of San Francisco.

***Mr. Max O. Borromeo***, *60, Filipino*, is the Company's Senior Managing Director/COO. He has been a Director since 2000. Aside from being a Director of the Company, Mr. Borromeo is concurrently President and a Director of Honda Motor World, Inc., HMW Lending Investors, Dearborn Motors Co., Inc, Astron Gestus, Inc., Visayas Auto Ventures, Inc., Cebu Maxi Management Corporation, Maxi Agricultural Corporation, Cebu Parkland, Inc. He is also a Director in the following companies: Borromeo Brothers Estate, Inc., Margarita Agro-Industrial Corp., Salud Borromeo Foundation, Inc. and McBros Development Corporation. At present, Mr. Borromeo is the governor of the Cebu Business Park. He graduated with a Bachelor of Arts degree in Economics from the Ateneo de Manila University.

***Mr. Rene B. Benitez***, *47, Filipino*, is the Company's Managing Director/VP. He has been a Director since 1996. Prior to joining the Company, he held the position of Country Manager of the Development Bank of Singapore ("DBS") Securities, Inc. He has had extensive experience in foreign and local investment banking and capital market operations, having been connected with Insular Investment and Trust Corporation, Shearson Lehman Brothers (USA), Prudential Bache Securities (USA) and the World Bank. He was formerly a member of the Philippine Stock Exchange and is currently Director of H. Thomas Group, Inc., Vision Air Flight Support Service, Inc., Pikeville, Inc., MERG Realty and Development Corporation, Commercial & Consumer Credit Corporation, Global Credit and Management Group, JCR Realty and Management and Interglobal Alliances. He graduated from Claremont Colleges / Pitzer College with a double degree in Business Economics and Organizational Studies. He also has a Master's Degree in Economics from Yale University.

***Mr. Joel S. Ferrer***, *55, Filipino*, has served as a Director since 1998. Mr. Ferrer is currently the President of PARMAN Inc., an overseas recruitment company. At the same time he also manages his family's aquaculture business. Previous to this, he had worked for ERECSA, Inc. where he was the Executive Vice President. His other work experience includes being an investment executive at the Summa International Bank of Indonesia and a Lending Officer at the Bank of America. He obtained his Masters Degree in Business Management from the Asian Institute of Management and completed the Strategic Business Economics Program of the University of Asia and the Pacific.

***Mr. Francisco C. Eizmendi Jr.***, *73, Filipino*, is one of the Independent Directors of the Company. He was elected as a Director in the recent Stockholders' Meeting of Makati Finance Corporation and concurrently a Director of RCBC Forex Brokers Corporation. Mr. Eizmendi had been the President and Chief Operating Officer of San Miguel Corporation for 15 years. He also had been a member of the Advisory Board of Rizal Commercial Banking Corporation. Mr. Eizmendi graduated with a Bachelor of Science in Chemical Engineering Degree from the University of Santo Tomas in 1956.

***Atty. Eugenio E. Reyes***, *72, Filipino*, is one of the Independent Directors of the Company. He was elected as a Director only in the last quarter of 2003. Atty. Reyes is with Jacob Jacob & Associates, concurrently the Corporate Secretary of Parman, Inc. and Executive Secretary of the Philippine Association of Securities Brokers and Dealers, Inc. He was also a former Director of the Securities & Exchange Commission from 1999 to 2001. Atty. Reyes finished his Bachelor of Laws at the University of Southern Philippines in Cebu City.

***Mr. Michael Wee Soon Lock***, *72, Singaporean*, has served as a Director since 1998. Mr. Wee is a senior

ASEAN banker and retired Executive Chairman of Development Bank of Singapore Securities Holding PTE Ltd. He has held the positions of the Chairman of NatSteel Ltd., Deputy Chairman of DBS Land, Executive Vice President of the Development Bank of Singapore, General Securities Investments Ltd., Singapore Bus Service Ltd., Laguna National
Golf and Country Club, Ltd. and was the Director of NFC Merchant Bank, Ltd. Mr. Wee graduated with a Bachelor of Science Degree in Chemical Engineering from the University of Birmingham and obtained his Masters Degree in Finance from the University of British Colombia.

## INDEPENDENT DIRECTORS

Among the Directors, Messrs. Francisco C. Eizmendi Jr. and Atty. Eugenio E. Reyes were elected as the two (2) Independent Directors of the Company at the 2008 Annual Stockholders' Meeting.

## SENIOR MANAGEMENT

***Ms. Cynthia M. Gacayan*** – *Chief Operating Officer, 54, Filipino.* Cynthia was employed by the Company in 2007 as its new CFO and in June 2008 was designated as Chief Operating Officer. She was the CFO/Finance Group Head of Cintree Management Services, Inc. (managing arm for the PJ Lhuillier companies) for 2 years. For 10 years she served as the Senior Vice President of Finance and Administration of the Science Park of the Philippines, Inc. (1990 – 2001). She also served as a Director for the Kyudenko Needs Creator IT Company from 2002 to 2005. Subsequently she became the CFO of Cintree Management Services Inc. in 2005 to 2007. She graduated with a Bachelor of Science degree in Accounting from the University of San Carlos in 1975. She completed her master's degree in Business Management from the University of the Philippines in 1984 and finished the Top Management Program of Asian Institute of Management in 1997

***Atty. Danilo Enrique O. Co***, *Corporate Secretary and Legal Counsel, 39, Filipino.* Atty. Co has been serving the Corporation has its Corporate Secretary and Legal Counsel shortly after it went public in 2003. He is currently the Managing Partner of Co Ferrer & Ang-Co Law Offices. He is also the Corporate Secretary and legal counsel of Information Capital Technology Ventures, Inc., a publicly-listed company, and a Director and/or Corporate Secretary of several other Philippine corporations, including Western Roadhouse Foods, Inc., Papercon, Inc., Amalgamated Investment Bancorporation and Kalayaan College. Atty. Co obtained his BS Business Administration *(cum laude)* and Law degrees from the University of the Philippines.

***Mr. Albert J. Batacan***, *Factoring Manager, MC Coordinator, 50, Filipino.* He has been employed by the Company since 2000. Prior to his employment with the Company, Mr. Batacan had served in various functions in a number of companies through the years. His more recent job experiences were with PARMAN, Inc. as Administrative Assistant, Toyota Bel-Air, Inc. as Financing Coordinator and YL Finance, Inc. as a Marketing Officer. Mr. Batacan graduated with a Bachelor of Science in Management Degree from the Letran College.

***Mr. Alfredo A. Reyes***, *Rx Cash Line Senior Manager, 48, Filipino.* Alfredo has been employed by the Company since 1997. He started as an Account Officer and subsequently was promoted to work as a Supervisor in 2002. Alfredo graduated from the University of the East with a Bachelor of Science degree in Accounting in 1984.

**FAMILY RELATIONSHIP**

Dr. Isidro B. Benitez and Ms. Teresita B. Benitez are spouses, and Mr. Rene B. Benitez is their son.

**INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

None of the Directors and Executive Officers was involved during the past five years in any bankruptcy proceedings up to March 31, 2009. Neither have they been convicted by final judgment in any criminal proceeding or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, not any action by any court or administrative body to have violated a securities or commodities law.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The following transactions have been entered into with related parties:

| | | | Elements of Transactions | | | |
|---|---|---|---|---|---|---|
| | | | Balance Sheet Amount | | Statement of Income Amount | |
| Related Party | Nature of Related Party Relationship | Nature of Transaction | **2008** | 2007 | **2008** | 2007 |
| AIB | Stockholder | Receivables | **₱101,007** | ₱1,276,013 | | |
| | | Note payable | **119,300,000** | 121,800,000 | | |
| | | Car lease contract | **224,772** | 3,903,252 | | |
| | | Interest expense | | | **₱11,332,861** | ₱9,293,706 |
| | | Interest Income | | | – | 200,191 |
| Merg Realty and Development Corporation | Stockholder | Rent expense | | | **591,360** | 484,006 |
| | | Notes payable | **1,500,000** | 1,500,000 | | |
| | | Interest expense | | | **51,945** | 42,481 |
| Honda Motor World | Affiliate | Professional fees | | | **1,440,000** | 44,445 |
| | | Advances | – | 35,512,876 | | |
| | | Receivables | – | 3,560,810 | | |
| | | Payables | **225,152** | 1,162,068 | | |
| Feliz Management, Inc. | Affiliate | Professional fees | | | **945,012** | 600,000 |
| Pikeville Bancshares | Affiliate | Professional fees | | | **930,000** | 692,000 |
| Merg Resources | Affiliate | Rent expense | | | **200,000** | 200,000 |
| Others | Affiliates | Interest expense | | | **88,760** | 294,375 |
| | Directors | Notes payable | **15,001,417** | 4,493,728 | | |
| | Directors | Management fees | | | **720,000** | 1,100,000 |

A related party handles the Company's administrative functions and as such, the said related party pays the compensation of its key management personnel. Hence the disclosure of the key management personnel, as required by PAS 24, Related Party Disclosures, is included in the financial statements of that related party.

The remuneration of directors and other members of key management consist of short-term benefits amounting to ₱4.43 million and ₱4.18 million in 2008 and 2007, respectively, included in the Management and Professional Fees account in the statements of income.

In the ordinary course of business, the Company has loans and other transactions with its subsidiaries and affiliates, and with certain directors and stockholders. These transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks. The Company had outstanding obligations to certain stockholders amounting to P 142.5 million as of December 31, 2008. Outstanding obligations to certain stockholders as of March 31, 2009 amounted to P123.7 million.

**COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS**

| SUMMARY COMPENSATION TABLE | | | | |
|---|---|---|---|---|
| YEAR | NAME AND PRINCIPAL POSITION | SALARY/MANAGEMENT FEE | BONUS | OTHER COMPENSATION |
| 2009 Estimated | Top 4 Executive Officers:<br>Max Borromeo – Senior Managing Director<br>Teresita Benitez – President<br>Rene B. Benitez – Managing Director<br>Cynthia M. Gacayan – COO/CFO | | | |
| | TOTAL | 5,200,000 | 1,200,000 | 240,000 |
| | ALL BOARD DIRECTORS AND OFFICERS AS A GROUP | 5,800,000 | 1,200,000 | 720,000 |
| 2008 (Actual) | Top 4 Executive Officers:<br>Max Borromeo-Senior Managing Director<br>Teresita Benitez - President<br>Rene B. Benitez - Managing Director<br>Cynthia M. Gacayan – COO/CFO | | | |
| | TOTAL | 4,868,000 | 981,000 | 180,000 |
| | ALL BOARD DIRECTORS AND OFFICERS AS A GROUP | 5,048,000 | 981,000 | 640,000 |
| 2007 (Actual) | Top 4 Executive Officers:<br>Max Borromeo-Senior Managing Director<br>Teresita Benitez - President<br>Rene B. Benitez - Managing Director<br>Emmanuel F. Laforteza/ Cynthia M. Gacayan – Controller/ CFO | | | |
| | TOTAL | 3,263,452 | 682,000 | 240,000 |
| | ALL BOARD DIRECTORS AND OFFICERS AS A GROUP | 3,503,452 | 682,000 | 1,100,000 |

The Company has an existing management contract with Cebu Maxi Mgmt. Corporation for advice and assistance to be provided by Mr. Max O. Borromeo as Senior Managing Director and with Pikeville Bancshares, Inc. for advice and assistance to be provided by Mr. Rene B. Benitez as Managing Director. The directors receive per diem each amounting to ₱ 20,000.00 for every attendance at a Board meeting or any meeting of the Board Committees. There are also no special compensatory plan or arrangement with any officer, which would give undue advantage over any other employee of the Company. No stock warrants or stock options on the Company's shares have been issued or given to the Directors or Executive Officers as a form of compensation for services rendered.

**IDENTITY OF SIGNIFICANT EMPLOYEES**

There is no person who is not an executive officer who is expected to make a significant contribution to the business of the company.

## INDEPENDENT PUBLIC ACCOUNTANTS

The auditing firm of SGV & Co. is the incumbent external auditor of the Company for the calendar year 2008.
The Company has complied with SRC Rule 68 (3)(b)(iv), regarding rotation of external auditors or engagement partners every five years. Ms.Jessie D. Cabaluna, SGV partner, is the reviewer/auditor of the Company. It is expected that SGV&Co. will be reappointed as Company's external auditor for Year 2009.

The representatives of the said firm are expected to be present at the shareholders' meeting, will have the opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

There had been no disagreements with SGV & Co. with regards to accounting policies and financial disclosures of the Company.

Audit Committee is comprise of the following – Atty. Eugenio E. Reyes, Chairman and Mr. Isidro B. Benitez, M.D., Mr. Joel S. Ferrer and Mr. Juan Carlos Del Rosario as members.

# ISSUANCE AND EXCHANGE OF SECURITIES

## AUTHORIZATION OR ISSUANCE OF SECURITIES OTHER THAN FOR EXCHANGE

As approved by the Board of Directors and upon concurrence by the Stockholders of the Company, an annual dividend declaration policy was set up, amount of which will be equivalent to 30% of the Company's net earnings for the year. For the year 2006, the Board of Directors approved the following: 30% of the audited net income after tax of P 16,205,137 is P 4,861,541 of which 50% was declared cash dividends amounting to ₱2,430,831 and the balance thereof was declared as stock dividends amounting to ₱2,430,710 in favor of the stockholders of record as of July 12, 2007 and 8.28% of the outstanding capital stock as of October 31, 2007 amounting to P83,117,897 is ₱ 6,882,103 was declared as stock dividends in favor of the stockholders of record as of November 26, 2007. Fractional shares related to this declaration amounted to ₱41 per share and was settled in cash. For the year 2005, the Board of Directors approved the following: 30% of the audited net income after tax of P12,193,904 is P3,658,170, 50% of the amount, P1,829,066 was declared as stock dividend and the other 50%, P1,829,104 was declared as cash dividend. Stock dividends shall be approved by a majority vote of the stockholders. On June 19, 2008, the Board of Directors approved the declaration of 2.51% stock dividends in the aggregate amount of P2,257,147 in favor of the stockholders of record as of July 17, 2008, with a payment date not later than August 12, 2008. On the same date, the Board of Directors also approved the declaration of cash dividends amounting to P2,257,147. Fractional shares related to this declaration were settled in cash amounting to P35.

# OTHER MATTERS

## PROPOSED ACTION

The following matters will be submitted to a vote at the Annual Meeting of the stockholders:

1. Approval of the Minutes of the Special Stockholders' Meeting held on 19 June 2008.
2. Approval of the 2008 Annual Report and the 2008 Audited Financial Statements

   *A copy of the 2008 Audited Financial Statements will be furnished to all shareholders as of Record Date, and the 2008 Annual Report will be presented during the Annual Stockholders' Meeting.*
3. Declaration of Dividends

   *The dividend policy dictates that 30% of 2008 Net Income after Tax will be declared as dividends. It is expected that the Board shall proposed this in the next BOD Meeting in June 4, 2009.*

4. Ratification of all Acts and Proceedings of the Board of Directors and Corporate Officers since the 2008 Special Stockholders' Meeting

   *All acts and proceedings taken by the Directors and Corporate Officers relate mostly to the regular business transactions wherein the Board of Directors is required to act upon. These actions are subjected to annual review of the Company's independent auditors. Major items are as follows:*

   *a. Appointment of members of various committees, namely Executive Committee, Audit Committee, Nomination Committee, Retirement Committee and Compensation Committee*

   Copies of the Minutes of the Meetings of the Board of Directors may be examined by stockholders of record as of Record Date at the office of the Corporate Secretary c/o Daniel Co Law Office at 11/F Atlanta Center, 31 Annapolis St., Greenhills, San Juan, Metro Manila during office hours.

5. Election of Directors

   *The same Directors are expected to be re-elected except for the possible election of new Directors.*

6. Amendment of the By-Laws to change the Date of the Annual Stockholders Meeting.

7. Appointment of External Auditor

   *It is expected that SGV & Co. will be reappointed as the Company's external auditor.*

**AMENDMENT OF CHARTER, BYLAWS OR OTHER DOCUMENTS**

Amendment of the By-Laws to change the Date of the Annual Stockholders Meeting is for:

a. Financial statements for May would be ready in case stockholders inquire about the current performance of the corporation;
b. To increase attendance at the Annual Stockholders' Meeting and encourage participation from more stockholders since many stockholders may still be on summer vacation in the first week of June.

**VOTING PROCEDURES**

The affirmative vote of stockholders present in person or by proxy representing at least a majority of the outstanding capital stock of the Corporation shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Stockholders' Meeting. Matters to be approved under "Other Matters" of the agenda, if any, shall be approved by stockholders owning majority of the shares of stock present during the annual stockholders' meeting or such other voting requirement as may be mandated by law.

The manner of voting and counting of votes will be as follows:

a) Every stockholder entitled to vote shall have the right to vote, either in person or by proxy, the number of shares registered in his/her/their respective name of record as of the close of business hours of May 12, 2009. Only written proxies, signed by the stockholders and duly presented to the Corporate Secretary on or before May 27, 2009 for inspection and recording shall be honored for purposes of voting.

b) On stock dividend declaration, approval shall require a majority vote by the stockholders entitled to vote.

c) For purposes of electing directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he owns, times the number of directors to be elected. The stockholder under this voting system has the option to (I) to cast all his votes in favor of one (1) nominee; or (ii) distribute those votes in the same principle among as many nominees as he shall see fit. Only candidates duly nominated during the meeting shall be voted by the stockholders entitled to vote or by their proxies.

d) Unless required by law, or upon motion by any stockholder, voting need not be by ballot and will be done by show of hands and counted manually by the Corporate Secretary.

## UNDERTAKING TO PROVIDE ANNUAL REPORT

**The registrant undertakes to provide *without charge* to each stockholder a copy of the Company's Annual Report on SEC Form 17-A upon written request to the Company addressed to:**

**ATTY. DANILO ENRIQUE O. CO**
**Corporate Secretary**
**Makati Finance Corporation**
**2/F Makati Finance Center**
**7823 Makati Avenue, Makati City**

**SIGNATURES**

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

**MAKATI FINANCE CORPORATION**
**Issuer**

**MERLINDA V. CUNANAN/Acctg. & Finance Manager**
**Signature and Title**

**HOLDERS OF COMMON STOCK As of March 31, 2009**
**TOP 20 Stockholders**

| Name | Nat | Class | No. of Shares | Percentage |
|---|---|---|---|---|
| AMALGAMATED INV. BANCORP. | FIL | A | 136,465,249.00 | 71.431809% |
| MF PIKEVILLE HOLDINGS INC. | FIL | A | 13,559,452.00 | 7.097603% |
| MICHAEL WEE | FOR | A | 7,905,176.00 | 4.137911% |
| BORROMEO BROS. ESTATE INC. | FIL | A | 6,242,805.00 | 3.267754% |
| ERIC B. BENITEZ | FIL | A | 5,327,911.00 | 2.788859% |
| MELLISSA B. LIMCAOCO | FIL | A | 4,781,812.00 | 2.503007% |
| RENE B. BENITEZ | FIL | A | 4,552,793.00 | 2.383129% |
| GLEN B. BENITEZ | FIL | A | 4,552,793.00 | 2.383129% |
| JOEL FERRER | FIL | A | 1,924,496.00 | 1.007364% |
| RODOLFO B. HERRERA / MAX BORROMEO / CARMEN MERCADO | FIL | A | 943,150.00 | 0.493685% |
| TERESITA B. BENITEZ | FIL | A | 663,128.00 | 0.34711% |
| PCD NOMINEE CORPORATION | FIL | A | 592,606.00 | 0.310196% |
| MERG REALTY DEVELOPMENT | FIL | A | 330,110.00 | 0.172794% |
| FLB DEVELOPMENT CORPORATION | FIL | A | 261,336.00 | 0.136795% |
| ISIDRO B. BENITEZ | FIL | A | 241,906.00 | 0.126624% |
| SOFIA LIMJAP | FIL | A | 235,851.00 | 0.123455% |
| MELLISSA B. LIMCAOCO ITF DANIELLE B. LIMCAOCO | FIL | A | 227,620.00 | 0.119146% |
| RENE BENITEZ ITF LORENZO L. BENITEZ | FIL | A | 227,620.00 | 0.119146% |
| RENE BENITEZ ITF CARMELA L. BENITEZ | FIL | A | 227,620.00 | 0.119146% |
| GLENN BENITEZ ITF ALESSANDRA C. BENITEZ | FIL | A | 227,620.00 | 0.119146% |
| SUB-TOTAL | | | **189,491,054.00** | **99.187808%** |
| OTHER STOCKHOLDERS (78) | | | 1,551,635.00 | 0.812192% |
| GRAND TOTAL (98 stockholders) | | | **191,042,689.00** | **100.00%** |

**MARKET SHARE INFORMATION**

The Company was listed in the Philippine Stock Exchange on January 6, 2003.

On January 6, 2003 with authorized capital stock of ₱90 million, a total of 19.56 million shares of stock were offered to the general public in the company's Initial Public Offering (IPO). On November 6, 2007, the Board of Directors and Stockholders approved the increase in the Company's authorized capital stock to ₱300 million. On March 27, 2008, the Securities and Exchange Commission approved the Company's application for a follow-on offering to the general public of 75,500,000 new common shares and 7,598,892 secondary shares. Although an approval has been sought, the Company has put this approval on hold.

According to the Philippine Stock Exchange Website, latest available price information on Makati Finance's stock price is P1.80 per share as of May 11, 2009. The Company has not gone into a business combination nor any reorganization for the year 2008.

Philippine Stock Exchange Market prices for the last years were as follows:

| Quarter Ending | Market Prices | |
|---|---|---|
| | High | Low |
| March, 2009 | ₱ 1.22 | ₱1.20 |
| Dec. 24, 2008 | 2.00 | 2.00 |
| Oct. 2, 2008 | 2.02 | 2.02 |
| June 30, 2008 | 6.00 | 5.40 |
| Arpril 01, 2008 | 3.70 | 3.70 |
| June, 2007 | 1.94 | 1.94 |
| March, 2007 | 1.94 | 1.94 |
| December, 2006 | 1.94 | 1.94 |
| March, 2006 | 2.00 | 2.00 |
| December, 2005 | 2.00 | 2.00 |

**DIVIDENDS**

As approved by the board of directors and upon concurrence by the stockholders of the Company, an annual dividend declaration policy was set up, amount of which will be equivalent to 30% of the Company's net earnings for the year. To date, the Board of Directors has not proposed declaration of dividend of the Company's net earnings for year 2008.

There is no restriction that Limit the Payment of Dividend Common Shares.

**NAMES OF THE UNDERWRITERS OR IDENTITY OF PERSONS TO WHOM THE SECURITIES WERE SOLD**

There were no underwriters or persons to whom the stock dividends were sold.

**SECURITIES SOLD FOR CASH**

There were no stock dividends which were sold for cash.

**EXEMPTION FROM REGISTRATION CLAIMED**

Pursuant to SRC Rule No. 10 Section D, the declaration of stock dividends is an exempt transaction. The approval of the Commission for the stock dividend declaration was not sought by the Company.

**COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE**

Makati Finance shall set up an evaluation system that will determine and measure compliance with the Manual on Corporate Governance.

Measures undertaken by MFC for full compliance with the adopted leading practices on good corporate governance includes election of independent directors and creation of the Nomination Committee starting year 2003 and continued up to the present time. Each incumbent director of MFC underwent seminars on good corporate governance in year 2003. To monitor compliance, the board of directors designated Mr. Albert J. Batacan as compliance officer. The Company submitted to the SEC its Revised Anti-Money Laundering Manual as mandated by Republic Act 9160, as amended by Republic Act. No. 9194 on October 28, 2004. Lastly, the Company's By-Laws shall be amended to incorporate provisions on independent directors. Deviations from the Company's Manual on Corporate Governance are not applicable. With regards to plans on improving corporate governance of the Company, Makati Finance is already adopting the International Accounting Standards in the presentation of its financial statements with the help of its external auditors. Communications are open with SGV with regards to further compliance with the IAS.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of Makati Finance Corporation is responsible for all information and representations contained in the audited financial statements as of December 31, 2008. The financial statements have been prepared in conformity with generally accepted accounting accounting principles in the Philippines and reflect amounts that are based on best estimates and informed judgement of management with an appropriate consideration to materiality.

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

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

Sycip, Gorres & Velayo, the independent auditors appointed by the Board of Directors and Stockholders, have audited the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit, in the report to the Company's Board of Directors ans stockholders as shown in the succeeding page.

| | | |
|---|---|---|
| DR. ISIDRO B. BENITEZ | TERESITA B. BENITEZ | CYNTHIA M. GACAYAN |
| Chairman | President | COO |

Personally came and appear before on this _____ day of __________ 2009, at Makati City, Dr. Isidro Benitez, Ms. Teresita Benitez and Ms Cynthia Gacayan with community Tax Certificate Nos. 12241505, 12341506; and 12370365 issued on Jan.8, Jan8 , & Jan. 19 of 2009 respectively at Makati City known to me and to me known to be the same persons who executed the foregoing STATEMENT OF MANAGEMENT'S RESPONSIBILITY and acknowledged that the same is their free act and voluntary deed.

This instrument consisting of ______ pages including this whereon the acknowledgement is written, together with its' Annexes, has been signed by the party and witnesses on each and every page therof.

WITNESS MY HAND AND SEAL, at the place and on th date first above written.

Doc No. 381

Page No. 78

Book No. VII

SERIES OF [illegible]

SIGNATURES

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

By:

| | | |
|---|---|---|
| DR. ISIDRO B. BENITEZ | TERESITA B. BENITEZ | CYNTHIA M. GACAYAN |
| Chairman | President | CFO |

Subscribed and sworn before me this ______ day of April, affiant (s) exhibiting to me his/her Residence Certificate as follows:

| NAME | RES. CERT. NO | DATE | PLACE OF ISSUE |
|---|---|---|---|
| DR. ISIDRO B. BENITEZ | 12241505 | 1/8/09 | MAKATI |
| TERESITA B. BENITEZ | 12341506 | 1/8/09 | MAKATI |
| MS. CYNTHIA GACAYAN | 12370365 | 1/19/09 | MAKATI |

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Page No. 78;
Book No. VII;
SERIES OF 09;

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

# ANNEX A

MAKATI FINANCE CORPORATION

Financial Statements
December 31, 2008 and 2007
and Years Ended December 31, 2008, 2007 and 2006

and

Report of Independent Auditors

# COVER SHEET

28788

SEC Registration Number

MAKATI FINANCE CORPORATION

(Company's Full Name)

2nd Floor, Makati Finance Centre,
7823 Makati Avenue, Makati City

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

**Cynthia M. Gacayan**

(Contact Person)

**896-0221/897-0749**

(Company Telephone Number)

12 31

*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

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

*SGVMC112321*

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph
BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Makati Finance Corporation
2nd Floor, Makati Finance Centre
7823 Makati Avenue, Makati City

We have audited the accompanying financial statements of Makati Finance Corporation, which comprise the balance sheets as at December 31, 2008 and 2007, and the statements of income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

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

## Auditors' Responsibility

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

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 Makati Finance Corporation as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 1566411, January 5, 2009, Makati City

April 3, 2009

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph
BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
Makati Finance Corporation
2nd Floor, Makati Finance Centre
7823 Makati Avenue, Makati City

We have audited the financial statements of Makati Finance Corporation (the Company) for the year ended December 31, 2008 on which we have rendered the attached report dated April 3, 2009.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has eighty three (83) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-1
Tax Identification No. 102-082-365
PTR No. 1566411, January 5, 2009, Makati City

April 3, 2009

## MAKATI FINANCE CORPORATION
## BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2008** | 2007 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** (Notes 4 and 6) | **₱13,076,638** | ₱6,086,890 |
| **Loans and Other Receivables** (Notes 3, 4, 8, 13 and 19) | **247,354,770** | 222,544,955 |
| **Available-for-Sale Financial Assets** (Notes 3 and 7) | **75,150,000** | 75,160,000 |
| **Property and Equipment** (Notes 3 and 11) | **11,407,807** | 3,540,491 |
| **Investment Properties** (Notes 3 and 10) | **8,150,128** | 10,692,901 |
| **Investment in Subsidiaries** (Note 9) | **100,000** | 100,000 |
| **Deferred Tax Assets** (Notes 3 and 17) | **4,853,595** | 5,039,035 |
| **Other Assets** (Note 12) | **3,637,447** | 38,300,449 |
| | **₱363,730,385** | ₱361,464,721 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Notes payable (Notes 4, 14 and 19) | **₱145,325,925** | ₱143,018,939 |
| Accounts and other payables (Notes 4 and 15) | **8,993,434** | 5,024,707 |
| Accrued expenses (Notes 4 and 21) | **5,689,119** | 5,513,807 |
| Pension liability (Notes 3 and 18) | **926,784** | 571,710 |
| Income tax payable | – | 7,738,388 |
| | **160,935,262** | 161,867,551 |
| **Equity** (Note 16) | | |
| Capital stock - ₱1 par value | | |
| Authorized - 300,000,000 shares in 2008 and 90,000,000 shares in 2007 | | |
| Issued and outstanding - 191,042,689 shares in 2008 and 89,999,959 shares in 2007 | **191,042,689** | 89,999,959 |
| Additional paid-in capital | **5,803,922** | 4,347,611 |
| Deposits for future stock subscription | – | 50,000,000 |
| Retained earnings | **6,048,512** | 55,339,600 |
| Net unrealized loss on available-for-sale investments (Note 12) | **(100,000)** | (90,000) |
| | **202,795,123** | 199,597,170 |
| | **₱363,730,385** | ₱361,464,721 |

*See accompanying Notes to Financial Statements.*

*SGVMC112321*

## MAKATI FINANCE CORPORATION
## STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2008** | 2007 | 2006 |
| **INTEREST INCOME** (Notes 6, 8 and 19) | ₱46,594,847 | **₱50,857,681** | ₱51,529,132 |
| **INTEREST EXPENSE** (Notes 14 and 19) | **11,320,848** | 11,504,977 | 8,174,475 |
| **NET INTEREST INCOME** | **35,273,999** | 39,352,704 | 43,354,657 |
| **OTHER INCOME** - Net | | | |
| Dividends (Note 12) | **5,363,528** | – | – |
| Service charges | **2,575,699** | 5,847,934 | 1,560,044 |
| Gain on sale of: | | | |
| Investment properties | **887,706** | 2,101,609 | 2,406,431 |
| Property and equipment | **78,432** | 8,996 | – |
| Reversal of allowance for impairment losses (Note 13) | **1,414,459** | – | – |
| Recovery on assets charged off | – | 1,000,000 | – |
| Unrealized foreign exchange gains | – | 164,531 | – |
| Miscellaneous | **1,184,495** | 3,225,043 | 842,982 |
| **TOTAL OTHER INCOME** | **11,504,319** | 12,348,113 | 4,809,457 |
| **TOTAL OPERATING INCOME** | **46,778,318** | 51,700,817 | 48,164,114 |
| **OPERATING EXPENSES** | | | |
| Professional fees (Note 19) | **10,599,627** | 6,307,038 | 4,867,092 |
| Salaries and employee benefits (Notes 18 and 19) | **8,034,511** | 5,017,313 | 4,917,037 |
| Taxes and licenses | **3,051,896** | 3,895,296 | 3,709,445 |
| Depreciation and amortization (Notes 10 and 11) | **2,167,863** | 2,426,694 | 2,745,345 |
| Management fees (Note 19) | **1,856,798** | 1,815,381 | 1,905,228 |
| Rent (Notes 19 and 22) | **1,160,586** | 958,674 | 964,124 |
| Commissions | **865,645** | 1,073,233 | 788,314 |
| Transportation and travel | **524,754** | 1,077,363 | 1,222,484 |
| Provision for impairment and credit losses (Note 13) | **464,243** | 1,099,083 | 170,371 |
| Entertainment, amusement and recreation (Note 17) | **325,067** | 295,305 | 401,026 |
| Amortization of software costs (Note 12) | **250,775** | 150,000 | 150,000 |
| Unrealized foreign exchange losses | – | 63,596 | 189,142 |
| Litigation/asset acquired expenses | – | 43,130 | 59,634 |
| Miscellaneous (Note 21) | **10,140,073** | 3,502,955 | 2,503,548 |
| **TOTAL OPERATING EXPENSES** | **39,441,838** | 27,725,061 | 24,592,790 |
| **INCOME BEFORE INCOME TAX** | **7,336,480** | 23,975,756 | 23,571,324 |
| **PROVISION FOR INCOME TAX** (Note 17) | **1,871,386** | 8,928,107 | 7,366,187 |
| **NET INCOME** | **₱5,465,094** | ₱15,047,649 | ₱16,205,137 |
| **Basic/Diluted Earnings Per Share** (Note 20) | **₱0.03** | ₱0.18 | ₱0.20 |

*See accompanying Notes to Financial Statements.*

*SGVMC112321*

## MAKATI FINANCE CORPORATION
## STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock | Additional Paid-In Capital | Deposits for Future Stock Subscription | Retained Earnings | Net Unrealized Loss on Available For-Sale Investments (Note 12) | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2008** | **₱89,999,959** | **₱4,347,611** | **₱50,000,000** | **₱55,339,600** | **(₱90,000)** | **₱199,597,170** |
| **Changes in fair value of available-for-sale investments** | **–** | **–** | **–** | **–** | **(10,000)** | **(10,000)** |
| **Net income for the year** | **–** | **–** | **–** | **5,465,094** | **–** | **5,465,094** |
| **Total income for the year** | **–** | **–** | **–** | **5,465,094** | **(10,000)** | **5,455,094** |
| **Stock dividends** (Note 16) | **52,499,041** | **–** | **–** | **(52,499,041)** | **–** | **–** |
| **Cash dividends** (Note 16) | **–** | **–** | **–** | **(2,257,141)** | **–** | **(2,257,141)** |
| **Issuance of shares of stock** | **48,543,689** | **1,456,311** | **–** | **–** | **–** | **50,000,000** |
| **Deposits for future stock subscription** (Note 16) | **–** | **–** | **(50,000,000)** | **–** | **–** | **(50,000,000)** |
| | **101,042,730** | **1,456,311** | **(50,000,000)** | **(54,756,182)** | **–** | **(2,257,141)** |
| **Balance at December 31, 2008** | **₱191,042,689** | **₱5,803,922** | **₱–** | **₱6,048,512** | **(₱100,000)** | **₱202,795,123** |
| | | | | | | |
| Balance at January 1, 2007 | ₱80,687,187 | ₱4,347,611 | ₱– | ₱52,035,595 | (₱110,000) | ₱136,960,393 |
| Changes in fair value of available-for-sale investments | – | – | – | – | 20,000 | 20,000 |
| Net income for the year | – | – | – | 15,047,649 | – | 15,047,649 |
| Total income for the year | – | – | – | 15,047,649 | 20,000 | 15,067,649 |
| Stock dividends (Note 16) | 9,312,772 | – | – | (9,312,772) | – | – |
| Cash dividends (Note 16) | – | – | – | (2,430,872) | – | (2,430,872) |
| Deposits for future stock subscription (Note 16) | – | – | 50,000,000 | – | – | 50,000,000 |
| | 9,312,772 | | 50,000,000 | (11,743,644) | – | 47,569,128 |
| Balance at December 31, 2007 | ₱89,999,959 | ₱4,347,611 | ₱50,000,000 | ₱55,339,600 | (₱90,000) | ₱199,597,170 |
| | | | | | | |
| Balance at January 1, 2006 | ₱78,858,121 | ₱4,347,611 | ₱– | ₱39,488,628 | (₱70,000) | ₱122,624,360 |
| Changes in fair value of available-for-sale investments | – | – | – | – | (40,000) | (40,000) |
| Net income for the year | – | – | – | 16,205,137 | – | 16,205,137 |
| Total income for the year | – | – | – | 16,205,137 | (40,000) | 16,165,137 |
| Stock dividends | 1,829,066 | – | – | (1,829,066) | – | – |
| Cash dividends | – | – | – | (1,829,104) | – | (1,829,104) |
| | 1,829,066 | – | – | (3,658,170) | – | (1,829,104) |
| Balance at December 31, 2006 | ₱80,687,187 | ₱4,347,611 | ₱– | ₱52,035,595 | (₱110,000) | ₱136,960,393 |

*See accompanying Notes to Financial Statements.*

*SGVMC112321*

# MAKATI FINANCE CORPORATION
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2008** | 2007 | 2006 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱7,336,480** | ₱23,975,756 | ₱23,571,324 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 10 and 11) | **2,167,863** | 2,426,694 | 2,745,345 |
| Provision for impairment and credit losses (Note 13) | **464,243** | 1,099,083 | 170,371 |
| Amortization of software costs (Note 12) | **250,775** | 150,000 | 150,000 |
| Reversal of allowance for impairment losses (Note 13) | **(1,414,459)** | – | – |
| Unrealized foreign exchange losses (gains) | **–** | (100,935) | 189,142 |
| Dividend income (Note 11) | **(5,363,528)** | – | – |
| Gain on sale of: | | | |
| Investment properties (Note 10) | **(887,706)** | (2,101,609) | (2,406,431) |
| Property and equipment (Note 11) | **(78,432)** | (8,996) | – |
| Operating income before changes in working capital | **2,475,236** | 25,439,993 | 24,419,751 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Loans and other receivables | **(25,274,058)** | (27,259,867) | (67,596,049) |
| Other assets | **36,303,251** | (35,649,402) | 123,484 |
| Increase (decrease) in: | | | |
| Accrued expenses | **530,387** | 1,082,507 | 1,303,456 |
| Accounts and other payables | **3,951,026** | (2,579,274) | 4,191,269 |
| Net cash provided by (used in) operations | **17,985,842** | (38,966,043) | (37,558,089) |
| Income taxes paid | **(11,297,658)** | (6,478,613) | (1,385,861) |
| Net cash provided by (used in) operating activities | **6,688,184** | (45,444,656) | (38,943,950) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of: | | | |
| Investment properties | **4,554,099** | 4,510,000 | 6,713,877 |
| Property and equipment | **2,304,529** | 719,999 | – |
| Acquisition of available-for-sale financial assets (Note 7) | **–** | (75,000,000) | – |
| Acquisitions of property and equipment (Note 11) | **(11,970,437)** | (175,000) | (1,035,917) |
| Net cash provided by (used in) investing activities | **(5,111,809)** | (69,945,001) | 5,677,960 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availments of notes payable | **43,634,456** | 132,182,087 | 90,100,389 |
| Payments of notes payable | **(41,327,470)** | (68,100,000) | (48,471,869) |
| Deposits for future stock subscription (Note 16) | **–** | 50,000,000 | – |
| Cash dividends received | **5,363,528** | – | – |
| Cash dividends paid (Note 16) | **(2,257,141)** | (2,430,872) | (1,829,104) |
| Net cash provided by financing activities | **5,413,373** | 111,651,215 | 39,799,416 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2008** | 2007 | 2006 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **₱6,989,748** | (₱3,738,442) | ₱6,533,426 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **6,086,890** | 9,825,332 | 3,291,906 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱13,076,638** | ₱6,086,890 | ₱9,825,332 |

**OPERATIONAL CASH FLOWS FROM INTEREST**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2008** | 2007 | 2006 |
| Interest income received | **₱46,250,481** | ₱52,021,709 | ₱53,599,983 |
| Interest expense paid | **(11,452,478)** | (10,404,730) | (7,452,531) |

*See accompanying Notes to Financial Statements.*

**MAKATI FINANCE CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**

## 1. Corporate Information

Makati Finance Corporation (the Company) operates as a domestic corporation engaged in the sale of various financial products and services, catering generally to the consumer market. The Company's principal place of business is at 2nd Floor, Makati Finance Centre, 7823 Makati Avenue, Makati City. The Company was listed in the Philippine Stock Exchange on January 6, 2003 and is majority-owned by Amalgamated Investment Bancorporation (AIB).

The accompanying financial statements of the Company were endorsed for approval by the Audit Committee on April 1, 2009 and authorized for issue by the Board of Directors (BOD) on April 3, 2009.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical basis, except for available-for-sale (AFS) investments that have been measured at fair value, and these financial statements are presented in Philippine Peso (₱), the Company's functional currency.

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

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 2008.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 11, *PFRS 2 - Group and Treasury Share Transactions*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. Adoption of this Interpretation did not have an impact on the Company's financial statements because it does not have an existing share-based payment scheme.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. Adoption of this Interpretation did not have any impact on the Company's financial statements as it does not have such contractual arrangements.

- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, *Employee Benefits*. Adoption of this Interpretation did not have an impact on the Company's financial statements as its defined benefit scheme is currently unfunded.

- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosure - Reclassification of Financial Assets*. The amendments to PAS 39 introduce the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivable category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity if there is intent and ability to hold the securities until maturity. The amendments to PFRS 7 introduce the disclosures relating to these reclassifications. Adoption of these amendments did not have any impact on the Company's financial statements since the Company did not avail of the reclassification allowed under these amendments.

<u>Future Changes in Accounting Policies</u>
The Company will adopt the Standards and Interpretations enumerated below when these become effective. The Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

*Effective in 2009*

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  This Amendment allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
  The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is

accounted for as a cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, *Operating Segments*
This Amendment will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the company will provide explanations and reconciliations of the differences. This Standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

- Amendment to PAS 1, *Presentation of Financial Statements*
This Amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the balance sheets and equity as well as additional disclosures to be included in the financial statements.

- Amendment to PAS 23, *Borrowing Costs*
The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
These Amendments introduce changes in respect of the holding companies' separate financial statements, including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
  These Amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group, the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

*Effective in 2010*

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
  Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as 'minority interests'); even if the losses exceed the noncontrolling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with noncontrolling interests.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
  Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Amendment 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.

- Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
  This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distribution are:
  a. distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and
  b. distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

  This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
  This Interpretation covers accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

*Effective in 2012*

- 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. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a 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 the stage of completion.

*Improvements to PFRS*

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. The following are the separate transitional provisions for each standard, which become effective in 2009:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- PAS 16, *Property, Plant and Equipment*
  This amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.

  Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents, and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  This revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

  It revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

  It also revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 23, *Borrowing Costs*
  This revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investments in Associates*
  If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  This revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*
  If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  When discounted cash flows are used to estimate 'fair value less costs to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  Expenditure on advertising and promotional activities is recognized as an expense when the company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

  It deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for intangible assets with finite lives that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  Changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition, are not reclassifications.

  When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

  It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  It revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Interest income*
Unearned interest income is recognized as income over the terms of the receivable using the effective interest rate (EIR) method. Interest income on nondiscounted receivables is accrued as earned likewise using 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.

*Service charges*
Service charges are recognized only upon collection or accrued when there is reasonable certainty as to its collectibility.

*Dividend income*
Dividend income is recognized when the Company's right to receive the payment is established.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments

*Date of recognition*
The Company recognizes financial assets or financial liabilities in the balance sheet when it becomes a party to the contractual provisions of the instrument. 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 the settlement date.

*Initial recognition of financial instruments*
All financial assets and financial liabilities are recognized initially at fair value. Except for securities measured at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

The Company classifies its financial assets in the following categories: Securities at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at 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.

The Company's financial assets and liabilities are of the nature of loans and receivables and AFS investments, and other financial liabilities, respectively.

*Determination of fair value*
The fair value for financial instruments traded in active markets at the balance sheet date is based on its 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 methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

*Day 1 profit*
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 valuation methodologies whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of 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 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 profit amount.

*Loans and receivables*
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Company has no intention of trading. This accounting policy relates to balance sheet captions, "Cash and cash equivalents" and "Loans and receivables".

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

Loans and receivables are stated at the outstanding balance, reduced by unearned discounts and capitalized interest on restructured loans and allowance for impairment and credit losses.

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.

Client's equity represents the amount withheld by the Company as protection against customer returns and allowances and other special adjustments, which is equivalent to 30% of the receivables factored. This is diminished proportionately as the receivables from factoring are collected.

*AFS investments*
AFS investments are those nonderivative financial assets that are designated as such or are not classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments pertain to golf club shares and an investment in an affiliated company and are included in the "Other Assets" account in the balance sheet.

After initial measurement, AFS investments are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS investments are excluded from reported earnings and are reported as "Net unrealized gain/loss on AFS investments" in equity.

When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Interest earned on the AFS investment, is reported as interest income using the EIR method. Dividends earned are recognized in the statement of income when the Company's right to receive payment is established. The losses arising from impairment of such investments are recognized in the statement of income.

*Notes payable and other borrowed funds*
Issued financial instruments or their components, which are not designated at FVPL, are classified as notes payable or other appropriate account titles for such borrowed funds, where the substance of the contractual arrangements 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, notes payable and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of EIR.

*Other financial liabilities*
Other financial liabilities are financial liabilities not designated as at FVPL where the substance of the contractual arrangements 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. After initial measurement, other financial liabilities 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 asset*
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when: (a) the rights to receive cash flows from the assets have expired; (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or (c) the Company has transferred its right to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred control of 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 of 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 the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liability*
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 income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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 balance sheet 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 or the group of financial assets 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and receivables*

If there is objective evidence that a credit loss on loans and receivables has been incurred, 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 yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of income. Interest income continues to be accrued 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 credit loss decreases because of an event occurring after the impairment was recognized, the previously recognized credit loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for impairment and credit losses" account in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a receivable has a variable interest rate, the discount rate for measuring any credit loss is the current effective interest rate, adjusted for the original credit risk premium.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

*AFS financial assets*

In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of changes in equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of changes in equity.

Investments in Subsidiaries

Subsidiaries pertain to all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Company's investments in subsidiaries are accounted for under the cost method less any accumulated impairment in value.

*Impairment of investments in subsidiaries*

The Company reviews its investments in subsidiaries for impairment. This includes considering certain indicators of impairment such as the following:

- significant underperformance relative to expected historical or projected 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.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as income or loss in the statement of income.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Furniture, fixtures and equipment | 5 years |
| Leasehold rights and improvements | 10 years or over the period of the lease, whichever is shorter |
| Transportation equipment | 5 years |

The useful lives and the depreciation and amortization 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 items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Foreclosed properties are classified under investment properties from foreclosure date.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Amortization of improvements is calculated on a straight-line basis over the estimated useful life of 15 years from the time of acquisition of the investment property.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognized in the statement of income in the year of derecognition.

Software Costs

Software costs, included under "Other Assets" account in the balance sheet, include costs incurred relative to the development of the Company's software. Software costs are amortized over five years on a straight-line basis from the date of its actual use.

Impairment of Nonfinancial Assets
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 recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs 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 (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 (or cash-generating unit).

An impairment loss is charged against 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 against the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any 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 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 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.

Foreign Currency Transactions and Translation
Foreign currency-denominated assets and liabilities are translated to Philippine peso at the prevailing Philippine Dealing and Exchange Corp (PDex), formerly Philippine Dealing System, at the balance sheet date while foreign currency-denominated income and expenses are translated into their Philippine pesos equivalent based on the weighted average rate at transaction dates. Exchange gains or losses arising from foreign currency-denominated transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against current operations.

Income Taxes
*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 enacted or substantively enacted by the balance sheet date.

*Deferred tax*
Deferred tax is provided, 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 with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 asset to be utilized. Unrecognized deferred tax assets are reassessed as at balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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 balance sheet date.

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

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 income on a straight-line basis over the lease term.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, 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. 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 assessment 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 interest expense.

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

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development cost (included in real estate inventories, investment properties and property, plant and equipment). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

Retirement Cost

The Company has a funded, noncontributory defined benefit retirement plan, administered by trustees, covering their permanent employees.

The retirement cost of the Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the balance sheet in respect of defined benefit retirement plans is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working life of the employees participating in the plan.

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

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Basic/Diluted Earnings Per Share
Basic/diluted earnings per share (EPS) is computed based on the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared and stock rights exercised during the year.

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

## 3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Company to make estimates and assumptions 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 statements 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 following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Judgments
*(a) Fair values of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation (see Note 4).

(b) *Operating lease commitments*
The Company has entered into a contract of lease for the office space it occupies. The Company has determined that all significant risks and rewards of ownership on these properties will be retained by the lessor (see Note 22).

(c) *Distinction between investment properties and owner-occupied properties*
The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

<u>Estimates</u>

(a) *Impairment on AFS financial assets*
The Company treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as longer than 6 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying values of AFS financial assets of the Company amounted to ₱75.15 million and ₱75.16 million as of December 31, 2008 and 2007, respectively (see Note 7).

(b) *Credit losses of loans and other receivables*
The Company maintains allowance for credit losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables, carrying balance and the computed present value. Factors considered in an individual assessment are payment history, past due status and term. The collective assessment would require the Company to classify its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. The carrying value of loans and other receivables amounted to ₱247.35 million and ₱222.54 million as of December 31, 2008 and 2007, respectively (see Note 8).

(c) *Impairment of nonfinancial assets*
*Property and equipment and investment properties*
The Company assesses impairment on its property and equipment and investment properties 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 value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

The carrying values of property and equipment and investment properties amounted to ₱11.41 million and ₱8.15 million, respectively, as of December 31, 2008 and ₱3.54 million and ₱10.69 million, respectively, as of December 31, 2007 (see Notes 10 and 11).

(d) *Recognition of deferred tax assets*
The Company reviews the carrying amounts of deferred taxes at each balance sheet date and reduce deferred tax assets 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. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Company looks at its projected performance in assessing the sufficiency of future taxable income. The carrying value of deferred tax assets amounted to ₱4.85 million and ₱5.04 million as of December 31, 2008 and 2007, respectively (see Note 17).

(e) *Present value of retirement obligation*
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. As of December 31, 2008 and 2007, the present value of the retirement obligation amounted to ₱1.10 million and ₱1.67 million, respectively (see Note 18).

(f) *Estimating useful lives of property and equipment and investment properties*
The Company estimates the useful lives of its property and equipment and investment properties based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The net book value of the Company's property and equipment and investment properties amounted to ₱11.41 million and ₱8.15 million as of December 31, 2008 and ₱3.54 million and ₱10.69 million as of December 31, 2007, respectively (see Notes 10 and 11).

## 4. Fair Value Measurement

The following table summarizes the carrying amounts and fair values of financial assets and financial liabilities on the balance sheets of the Company as of December 31:

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents | **₱13,076,638** | ₱6,086,890 | **₱13,076,638** | ₱6,086,890 |
| Loans and other receivables (see Note 8) | | | | |
| Loans receivable | | | | |
| Services | **99,663,980** | 36,036,235 | **99,663,980** | 36,036,235 |
| Consumer | **55,543,321** | 48,061,781 | **55,543,321** | 48,061,781 |
| Construction | **47,023,160** | 3,780,931 | **47,023,160** | 3,780,931 |
| Manufacturing | **25,743,995** | 102,752,258 | **25,743,995** | 102,752,258 |
| Small businesses/ entrepreneurs | **8,743,637** | 5,311,286 | **8,743,637** | 5,311,286 |
| Receivable from related parties | **10,414,324** | 22,560,464 | **10,414,324** | 22,560,464 |
| Notes receivable | **222,353** | 4,042,000 | **222,353** | 4,042,000 |
| | **260,431,408** | 228,631,845 | **260,431,408** | 228,631,845 |
| **AFS investments** (see Note 7) | **75,150,000** | 75,160,000 | **75,150,000** | 75,160,000 |
| Total Financial Assets | **₱335,581,408** | ₱303,791,845 | **₱335,581,408** | ₱303,791,845 |
| **Other Financial Liabilities** | | | | |
| Notes payable | **₱145,325,925** | ₱143,018,939 | **₱145,325,925** | ₱143,018,939 |
| Accrued expenses | **5,689,119** | 5,513,807 | **5,689,119** | 5,513,807 |
| Accounts and other payables (see Note 15) | | | | |
| Payable to suppliers | **5,198,722** | 3,818,389 | **5,198,722** | 3,818,389 |
| Others | **2,685,873** | 252,046 | **2,685,873** | 252,046 |
| Total Financial Liabilities | **₱158,899,639** | ₱152,603,181 | **₱158,899,639** | ₱152,603,181 |

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

*Cash and cash equivalents and loans and other receivables*
Carrying amounts approximate fair values due to the relatively short term maturities of these financial assets.

*AFS investments*
AFS quoted equity shares - Fair values are based on quoted prices published in markets.

AFS unquoted shares - Fair value of unquoted equity shares where the fair value is not reasonably determinable due the unpredictable nature of future cash flows and the lack of a suitable method of arriving at a reliable fair value, these are carried at cost.

*Liabilities*
Fair values of the Company's liabilities are estimated using the discounted cash flow methodology using the Company's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rate used amounted to 5.0% to 6.7% in 2008 and 2007. The carrying amounts of accrued expenses and accounts and other payables approximate fair values due to their short-term maturities.

## 5. Financial Risk Management Objectives and Policies

Financial Risk
The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

*Credit risk and concentration of assets and liabilities*
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 setting limits for individual borrowers, and groups of borrowers and industry segments. The Company also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Company obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. Finally, 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 balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting arrangements or collateral agreements.

| | **2008** | 2007 |
|---|---:|---:|
| Cash and cash equivalents (excluding cash on hand) | **₱12,319,688** | ₱6,026,890 |
| Loans and other receivables (see Note 8) | | |
| Loans receivable: | | |
| Services | **148,249,756** | 65,005,403 |
| Consumer | **83,113,442** | 57,421,719 |
| Construction | **66,875,943** | 5,401,330 |
| Manufacturing | **33,323,361** | 144,733,978 |
| Small businesses/entrepreneurs | **8,743,637** | 5,676,766 |
| Receivable from related parties (see Note 19) | **10,414,324** | 22,560,464 |
| Notes receivable | **222,353** | 4,042,000 |
| | **350,942,816** | 304,841,660 |
| AFS financial assets (see Note 7) | **75,150,000** | 75,160,000 |
| Total credit risk exposure | **₱438,412,504** | ₱386,028,550 |

The Company also focuses on markets and borrowers that have a relatively better capability to repay their loans. One example for this is the medical professional market where most doctors are able to pay because of their higher disposable income. Despite the systems and checks in place for the Company, there is no guarantee that none of its existing and future clients will default on a loan. An increase in loan defaults will have a negative effect on the Company's profitability.

The Company's motorcycle financing business has the motor itself as collateral in case the borrower defaults on its loan.

The Company has no significant credit risk concentration.

The table below summarizes the credit quality of the Company's loans and receivables that are neither past due and impaired as of December 31:

**2008**

| | Neither past due nor impaired | | | | | |
|---|---:|---:|---:|---:|---:|---:|
| | High Grade | Medium Grade | Low Grade | Past due but not impaired | Impaired | Total |
| Loans and other receivables | | | | | | |
| Loans receivable | | | | | | |
| Services | ₱54,091,330 | ₱46,384,781 | ₱30,961,496 | ₱16,812,149 | ₱4,741,307 | ₱152,991,063 |
| Consumer | 82,421,976 | 691,466 | – | – | 419,888 | 83,533,330 |
| Construction | – | – | 66,875,943 | – | – | 66,875,943 |
| Manufacturing | 12,537,834 | – | – | 20,785,527 | 3,668,549 | 36,991,910 |
| Small businesses/ entrepreneurs | 3,898,702 | 670,868 | 163,270 | 4,010,797 | 4,010,796 | 12,754,433 |
| Receivable from related parties | 10,414,324 | – | – | – | 119,459 | 10,533,783 |
| Notes receivable | 222,353 | – | – | – | – | 222,353 |
| | ₱163,586,519 | ₱47,747,115 | ₱98,000,709 | ₱41,608,473 | ₱12,959,999 | ₱363,902,815 |

2007

| | Neither past due nor impaired | | | | | |
|---|---|---|---|---|---|---|
| | High Grade | Medium Grade | Low Grade | Past due but not impaired | Impaired | Total |
| Loans and other receivables | | | | | | |
| Loans receivable | | | | | | |
| Services | ₱45,867,863 | ₱1,589,942 | ₱6,238,632 | ₱11,308,966 | ₱7,979,555 | ₱72,984,958 |
| Consumer | 42,687,619 | 9,289,036 | 5,445,064 | – | 3,294,226 | 60,715,945 |
| Construction | – | – | 5,401,330 | – | – | 5,401,330 |
| Manufacturing | 22,436,284 | 23,072,084 | 69,861,320 | 29,364,290 | 1,221,975 | 145,955,953 |
| Small businesses/ entrepreneurs | 1,665,969 | – | – | 4,010,797 | – | 5,676,766 |
| Receivable from related parties | 20,304,417 | 2,256,047 | – | – | – | 22,560,464 |
| Notes receivable | 4,042,000 | – | – | – | – | 4,042,000 |
| | ₱137,004,152 | ₱36,207,109 | ₱86,946,346 | ₱44,684,053 | ₱12,495,756 | ₱317,337,416 |

The credit quality of loans and receivables was determined as follows:

- High grade pertains to receivables with no default in payment.
- Medium grade pertains to receivables with up to 3 defaults in payment.
- Low grade pertains to receivables with more than 3 defaults in payment.

*Liquidity risk*

The Company seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Company maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and advances from related parties.

The table summarizes the maturity profile of the Company's financial liabilities as of December 31, 2008 and 2007 based on undiscounted contractual payments.

| | **2008** | | | | |
|---|---|---|---|---|---|
| | **< 1 year** | **1 to < 2 years** | **2 to < 3 years** | **3 to < 5 years** | **Total** |
| Notes payable | **₱145,325,925** | **₱–** | **₱–** | **₱–** | **₱145,325,925** |
| Accrued expenses | **5,689,119** | **–** | **–** | **–** | **5,689,119** |
| Interest expense payable | **2,150,977** | **–** | **–** | **–** | **2,150,977** |
| Accounts and other payables | | | | | |
| Payable to suppliers | **5,198,722** | **–** | **–** | **–** | **5,198,722** |
| Others | **2,685,873** | **–** | **–** | **–** | **2,685,873** |
| | **₱161,050,616** | **₱–** | **₱–** | **₱–** | **₱161,050,616** |

| | 2007 | | | | |
|---|---|---|---|---|---|
| | < 1 year | 1 to < 2 years | 2 to < 3 years | 3 to < 5 years | Total |
| Notes payable | ₱143,018,939 | ₱– | ₱– | ₱– | ₱143,018,939 |
| Accrued expenses | 5,513,807 | – | – | – | 5,513,807 |
| Interest expense payable | 2,420,750 | – | – | – | 2,420,750 |
| Accounts and other payables | | | | | |
| Payable to suppliers | 3,818,389 | – | – | – | 3,818,389 |
| Others | 252,046 | – | – | – | 252,046 |
| | ₱155,023,931 | ₱– | ₱– | ₱– | ₱155,023,931 |

*Interest rate risk*
The profitability of the Company may be influenced by changes in the level of interest rates. In the event that interest rates go up significantly, less people will be inclined to avail of a loan. The Company funds its loan operations through a combination of the operational cash flow and borrowings from related parties. Any increase in interest rates will cause the Company to incur more expenses for every peso they earn in interest income.

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. The interest rates reflect the prevailing market interest rates. The rates are benchmarked against the applicable treasury bills and MART rate for most of the peso-denominated investments.

The following table demonstrates the sensitivity of the Company's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2008 and 2007, with all variables held constant (through the impact on fixed rate lendings and borrowings and changes in fair value of financial assets through FVPL).

**Notes payable**

| | **Effect on profit before tax Change in basis points** | |
|---|---|---|
| | **+100 basis points** | **-100 basis points** |
| December 31, 2008 | **(₱1,453,259)** | **₱1,453,259** |
| December 31, 2007 | (1,430,189) | 1,430,189 |

There is no other impact on the Company's equity other than those already affecting the net income.

*Foreign exchange risk*
The Company's foreign exchange risk results primarily from movements in the Philippine Peso (PHP) against the United States Dollar (USD). The Company's USD-denominated financial asset pertains to loans and receivables amounting to nil and ₱2.54 million as of December 31, 2008 and 2007, respectively. Accordingly, the Company's exposure to foreign exchange risk is minimal

6. **Cash and Cash Equivalents**

This account consists of:

| | **2008** | 2007 |
|---|---|---|
| Cash on hand and in banks | **₱13,076,638** | ₱4,086,890 |
| Short-term placements | – | 2,000,000 |
| | **₱13,076,638** | ₱6,086,890 |

Cash in banks earns interest at the prevailing bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term placement rate.

Interest income on cash in banks and short-term placements amounted to ₱0.09 million and ₱0.61 million in 2008 and 2007, respectively.

## 7. Available-for-Sale Financial Assets

This account pertains to golf club shares which are carried at fair value, net of unrealized loss and allowance for impairment losses and investment in AIB which is carried at cost. Details of these investments follow:

| | **2008** | 2007 |
|---|---|---|
| Cost | **₱78,477,008** | ₱78,477,008 |
| Net unrealized loss | **(100,000)** | (90,000) |
| Allowance for impairment losses (see Note 13) | **(3,227,008)** | (3,227,008) |
| At December 31 | **₱75,150,000** | ₱75,160,000 |

On September 12, 2007, the Company purchased 9,000,000 shares of stocks of AIB for a total consideration of ₱75.00 million. This investment is accounted for at cost due to a lack of reliable method to establish fair value. On January 11, 2008, AIB declared dividends amounting to ₱5.36 million which were received by the Company during the year.

Movements in net unrealized losses on AFS financial assets follow:

| | **2008** | 2007 |
|---|---|---|
| Balance at beginning of year | **₱90,000** | ₱110,000 |
| Change in fair value recognized in equity | **10,000** | (20,000) |
| Balance at end of year | **₱100,000** | ₱90,000 |

## 8. Loans and Other Receivables

This account consists of:

| | **2008** | 2007 |
|---|---|---|
| Loans receivable: | | |
| Services | **₱152,991,063** | ₱72,984,958 |
| Consumer | **83,533,330** | 60,715,945 |
| Construction | **66,875,943** | 5,401,330 |
| Manufacturing | **36,991,910** | 145,955,953 |
| Small businesses/entrepreneurs | **12,754,433** | 5,676,766 |
| Related parties (see Note 19) | **10,533,783** | 22,560,464 |
| Notes receivable | **222,353** | 4,042,000 |
| | **363,902,815** | 317,337,416 |
| Unearned interest income | **(52,964,447)** | (38,260,157) |
| Client's equity | **(50,623,599)** | (44,036,548) |
| Allowance for impairment losses (see Note 13) | **(12,959,999)** | (12,495,756) |
| | ₱247,354,770 | **₱222,544,955** |

The classes of loans receivable are subdivided according to loan grants to different industries.

As of December 31, 2008 and 2007, nonperforming receivables under loans receivable amounted to ₱12.96 million and ₱13.14 million, respectively.

Interest rates on loans receivable ranges from 1.25% to 3.50% plus gross receipts tax per month while interest on notes receivable amounted to 5% of the principal balance in 2008 and 2007.

Other receivables consist of lease contract receivables, sales contract receivables and accrued interest receivable.

Interest income earned from loans receivables amounted to ₱46.51 million and ₱50.24 million in 2008 and 2007, respectively.

The analysis of loans and other receivables that were past due but not impaired follows:

December 31, 2008

| | Neither Past Due nor Impaired | Past Due but not Impaired <30 days | 30-60 days | 61-90 days | 91-120 days | >120 days | Total | Impaired | Total |
|---|---|---|---|---|---|---|---|---|---|
| Loans receivable | | | | | | | | | |
| Services | ₱131,437,607 | ₱5,809,881 | ₱– | ₱5,858,575 | ₱– | ₱5,143,693 | ₱16,812,149 | ₱4,741,307 | ₱152,991,063 |
| Consumer | 83,113,442 | – | – | – | – | – | – | 419,888 | 83,533,330 |
| Construction | 66,875,943 | – | – | – | – | – | – | – | 66,875,943 |
| Manufacturing | 12,537,834 | 181,560 | 332,200 | 306,000 | 1,303,738 | 18,662,029 | 20,785,527 | 3,668,549 | 36,991,910 |
| Small businesses/ Entrepreneurs | 4,732,840 | – | – | – | – | 4,010,797 | 4,010,797 | 4,010,796 | 12,754,433 |
| Related parties | 10,414,324 | – | – | – | – | – | – | 119,459 | 10,533,783 |
| Notes receivable | 222,353 | – | – | – | – | – | – | – | 222,353 |
| | ₱309,334,343 | ₱5,991,441 | ₱332,200 | ₱6,164,575 | ₱1,303,738 | ₱27,816,519 | ₱41,608,473 | ₱12,959,999 | ₱363,902,815 |

December 31, 2007

| | Neither Past Due nor Impaired | Past Due but not Impaired <30 days | 30-60 days | 61-90 days | 91-120 days | >120 days | Total | Impaired | Total |
|---|---|---|---|---|---|---|---|---|---|
| Loans receivable | | | | | | | | | |
| Services | ₱53,696,437 | ₱527,292 | ₱412,581 | ₱479,153 | ₱1,310,371 | ₱8,579569 | ₱11,308,966 | ₱7,979,555 | ₱72,984,958 |
| Consumer | 57,421,719 | – | – | – | – | – | – | 3,294,226 | 60,715,945 |
| Construction | 5,401,330 | – | – | – | – | – | – | – | 5,401,330 |
| Manufacturing | 115,369,688 | 3,630,610 | 5,045,287 | 3,804,465 | 14,059,652 | 2,824,276 | 29,364,290 | 1,221,975 | 145,955,953 |
| Small businesses/ Entrepreneurs | 1,665,969 | – | – | – | – | 4,010,797 | 4,010,797 | – | 5,676,766 |
| Receivable from related parties | 22,560,464 | – | – | – | – | – | – | – | 22,560,464 |
| Notes receivable | 4,042,000 | – | – | – | – | – | – | – | 4,042,000 |
| | ₱260,157,607 | ₱4,157,902 | ₱5,457,868 | ₱4,283,618 | ₱15,370,023 | ₱15,414,642 | ₱44,684,053 | ₱12,495,756 | ₱317,337,416 |

## 9. Investment in Subsidiaries

This account consists of:

| | Percentage of ownership | 2008 | 2007 |
|---|---|---|---|
| Acquisition cost: | | | |
| Commercial and Consumer Credit Corporation (3C) | **100%** | **₱1,000,000** | ₱1,000,000 |
| Global Credit and Management Group/3C (GCMGI/3C) | **51%** | **1,000,000** | 1,000,000 |
| 3C Pawnshop | **100%** | **100,000** | 100,000 |
| | | **2,100,000** | 2,100,000 |
| Allowance for impairment losses (see Note 13) | | **(2,000,000)** | (2,000,000) |
| | | **₱100,000** | ₱100,000 |

The Company discontinued applying the equity method for its investments in 3C and GCMGI/3C since the acquisition costs were reduced to zero due to the accumulated share in net losses of these subsidiaries. 3C and GCMGI/3C have ceased operations in 1999 and 1996, respectively.

As of December 31, 2008, 3C Pawnshop has not yet started commercial operations.

## 10. Investment Properties

The rollforward analysis of this account follows:

| | 2008 | | |
|---|---|---|---|
| | **Land** | **Improvements** | **Total** |
| **Cost** | | | |
| At January 1 | **₱7,728,043** | **₱8,883,678** | **₱16,611,721** |
| Disposals | **(3,293,691)** | **(1,592,637)** | **(4,886,328)** |
| At December 31 | **4,434,352** | **7,291,041** | **11,725,393** |
| **Accumulated Depreciation and Amortization** | | | |
| At January 1 | – | **3,484,828** | **3,484,828** |
| Depreciation and amortization | – | **290,839** | **290,839** |
| Disposals/others | – | **(1,219,935)** | **(1,219,935)** |
| At December 31 | – | **2,555,732** | **2,555,732** |
| **Allowance for Impairment Losses** (see Note 13) | **1,019,533** | – | **1,019,533** |
| **Net Book Value** | **₱3,414,819** | **₱4,735,309** | **₱8,150,128** |

*SGVMC112321*

| | 2007 | | |
|---|---|---|---|
| | Land | Improvements | Total |
| **Cost** | | | |
| At January 1 | ₱7,783,521 | ₱13,515,644 | ₱21,299,165 |
| Reclassification | 1,149,591 | (1,149,591) | – |
| Disposals | (1,205,069) | (3,482,375) | (4,687,444) |
| At December 31 | 7,728,043 | 8,883,678 | 16,611,721 |
| **Accumulated Depreciation and Amortization** | | | |
| At January 1 | – | 5,231,971 | 5,231,971 |
| Depreciation and amortization | – | 531,910 | 531,910 |
| Disposals/others | – | (2,279,053) | (2,279,053) |
| At December 31 | – | 3,484,828 | 3,484,828 |
| **Allowance for Impairment Losses** (see Note 13) | 648,710 | 1,785,282 | 2,433,992 |
| **Net Book Value** | ₱7,079,333 | ₱3,613,568 | ₱10,692,901 |

The aggregate fair value of the investment properties of the Company amounted to ₱9.82 million and ₱12.88 million as of December 31, 2008 and 2007, respectively. In 2008 and 2007, the Company sold certain investment properties at a gain of ₱2.30 million and ₱2.10 million, respectively.

The fair value of the Company's investment properties was estimated on the basis of recent sales of similar properties in the same areas taking into account the economic conditions prevailing at the time the valuations were made.

## 11. Property and Equipment

The rollforward analysis of this account follows:

| | **2008** | | | |
|---|---|---|---|---|
| | **Furniture, Fixtures and Equipment** | **Leasehold Rights and Improvements** | **Transportation Equipment** | **Total** |
| **Cost** | | | | |
| At January 1 | **₱1,736,717** | **₱131,978** | **₱8,130,557** | **₱9,999,252** |
| Additions | **4,321,531** | **873,326** | **6,775,580** | **11,970,437** |
| Disposals | **(1,490,537)** | **(131,978)** | **(6,619,597)** | **(8,242,112)** |
| At December 31 | **4,567,711** | **873,326** | **8,286,540** | **13,727,577** |
| **Accumulated Depreciation and Amortization** | | | | |
| At January 1 | **1,593,057** | **131,978** | **4,733,726** | **6,458,761** |
| Depreciation and amortization | **114,885** | **22,446** | **1,739,693** | **1,877,024** |
| Disposals | **(1,490,537)** | **(131,978)** | **(4,393,500)** | **(6,016,015)** |
| At December 31 | **217,405** | **22,446** | **2,079,919** | **2,319,770** |
| **Net Book Value** | **₱4,350,306** | **₱850,880** | **₱6,206,621** | **₱11,407,807** |

| | 2007 | | | |
|---|---|---|---|---|
| | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Transportation Equipment | Total |
| **Cost** | | | | |
| At January 1 | ₱1,676,717 | ₱131,978 | ₱9,159,489 | ₱10,968,184 |
| Additions | 60,000 | – | 115,000 | 175,000 |
| Disposals | – | – | (1,143,932) | (1,143,932) |
| At December 31 | 1,736,717 | 131,978 | 8,130,557 | 9,999,252 |
| **Accumulated Depreciation and Amortization** | | | | |
| At January 1 | 1,455,455 | 122,944 | 3,418,507 | 4,996,906 |
| Depreciation and amortization | 137,602 | 9,034 | 1,748,148 | 1,894,784 |
| Disposals | – | – | (432,929) | (432,929) |
| At December 31 | 1,593,057 | 131,978 | 4,733,726 | 6,458,761 |
| **Net Book Value** | ₱143,660 | ₱– | ₱3,396,831 | ₱3,540,491 |

## 12. Other Assets

This account consists of:

| | **2008** | 2007 |
|---|---|---|
| Prepaid expenses | **₱1,993,453** | ₱492,567 |
| Motorcycle inventory | **1,291,000** | 1,861,274 |
| Advances to a supplier | **–** | 35,512,875 |
| Software costs | **–** | 250,775 |
| Miscellaneous | **352,994** | 182,958 |
| | **₱3,637,447** | ₱38,300,449 |

Motorcycle inventory pertains to repossessed units from the Company's motorcycle financing business.

During the year, the Company advanced ₱50.00 million to its supplier at 7% interest per annum. This advance, including accrued interest, is settled through the issuance of motorcycle inventories. Outstanding balance amounted to nil and ₱35.51 million as of December 31, 2008 and 2007, respectively.

The movements in software costs follow:

| | **2008** | 2007 |
|---|---|---|
| At January 1 | **₱250,775** | ₱352,265 |
| Additions | **–** | 48,510 |
| Amortization for the year | **(250,775)** | (150,000) |
| At December 31 | **₱–** | ₱250,775 |

## 13. Allowance for Impairment and Credit Losses

Movements in allowance for credit losses follow:

| | December 31, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans receivable | | | | | | |
| | Manufacturing | Services | SME | Consumer | Related parties | Others | Total |
| **At January 1** | **₱3,668,549** | **₱4,277,065** | **₱4,010,796** | **₱–** | **₱119,459** | **₱419,887** | **₱12,495,756** |
| **Provisions during the year** | **–** | **464,243** | **–** | **–** | **–** | **–** | **464,243** |
| **At December 31** | **₱3,668,549** | **₱4,741,308** | **₱4,010,796** | **₱–** | **₱119,459** | **₱419,887** | **₱12,959,999** |
| **Individually impaired** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** |
| **Collectively impaired** | **–** | **464,243** | **–** | **–** | **–** | **–** | **464,243** |
| **Total** | **₱3,668,549** | **₱4,741,308** | **₱4,010,796** | **₱–** | **₱119,459** | **₱419,887** | **₱12,959,999** |
| **Gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** |

| | December 31, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans receivable | | | | | | |
| | Manufacturing | Services | SME | Consumer | Related parties | Others | Total |
| At January 1 | ₱4,403,748 | ₱5,189,180 | ₱4,010,796 | ₱452,923 | ₱119,459 | ₱419,887 | ₱14,595,993 |
| Provisions during the year | 206,748 | 243,623 | – | – | – | – | 450,371 |
| Write-offs | (941,947) | (1,155,738) | – | (452,923) | – | – | (2,550,608) |
| At December 31 | ₱3,668,549 | ₱4,277,065 | ₱4,010,796 | ₱– | ₱119,459 | ₱419,887 | ₱12,495,756 |
| Individually impaired | ₱– | ₱– | ₱– | ₱– | ₱119,459 | ₱419,887 | ₱539,346 |
| Collectively impaired | 3,668,549 | 4,277,065 | 4,010,796 | – | – | – | 11,956,410 |
| Total | ₱3,668,549 | ₱4,277,065 | ₱4,010,796 | ₱– | ₱119,459 | ₱419,887 | ₱12,495,756 |
| Gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance | ₱– | ₱– | ₱– | ₱– | ₱119,459 | ₱419,887 | ₱539,346 |

*Impairment Assessment*
The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties.

The Company assesses impairment of its loans and receivables into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving accounts receivable, and accounts of defaulted agents.

For the collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility.

The total impairment and credit losses on the receivables recognized in statement of income amounted to ₱0.46 million and ₱0.45 million for the years ended December 31, 2008 and 2007, respectively.

Movements in allowance for impairment losses follow:

| | **2008** | 2007 |
|---|---|---|
| At January 1 | | |
| Investment properties | **₱2,433,992** | ₱1,785,282 |
| AFS investments | **3,227,008** | 3,227,008 |
| Investment in an associate and subsidiaries | **2,000,000** | 2,000,000 |
| | **7,661,000** | 7,012,290 |
| Recoveries | **(1,414,459)** | – |
| Provisions | – | 648,712 |
| At December 31 | | |
| Investment properties (see Note 10) | **1,019,533** | 2,433,992 |
| AFS investments (see Note 7) | **3,227,008** | 3,227,008 |
| Investment in an associate and subsidiaries (see Note 9) | **2,000,000** | 2,000,000 |
| | **₱6,246,541** | ₱7,661,000 |

14. **Notes Payable**

This represents unsecured short-term loans from the Company's stockholders (see Note 19) with interest rates ranging from 8.00% to 11.83% per annum in 2008 and 2007.

Notes payable maturing within one year from the respective balance sheet dates amounted to ₱145.32 million and ₱143.02 million as of December 31, 2008 and 2007, respectively. Interest expense on these notes payable amounted to ₱11.32 million in 2008 and ₱11.50 million in 2007.

## 15. Accounts and Other Payables

This account consists of:

| | **2008** | 2007 |
|---|---|---|
| Payable to suppliers | **₱5,198,722** | ₱3,818,389 |
| Taxes payable | **979,990** | 899,718 |
| SSS, Medicare and HDMF payable | **43,053** | 54,554 |
| Other payables | **2,771,669** | 252,046 |
| | **₱8,993,434** | ₱5,024,707 |

Accounts and other payables are normally settled in 30 days term.

## 16. Equity

On June 19, 2008, the BOD approved the declaration of 2.51% stock dividends in the aggregate amount of ₱2,257,147 in favor of the stockholders of record as of July 17, 2008, with a payment date not later than August 12, 2008. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱2,257,147. Fractional shares related to this declaration were settled in cash amounting to ₱35.

In 2007, the Company received an additional capital infusion from its stockholders for their subscription of 48,543,689 shares to be issued out of the proposed increase in authorized capital stock from 90 million common shares to 300 million common shares with a par value of ₱1 per share. This was recorded as deposits for future stock subscription in the amount of ₱50.00 million. In addition, the BOD approved the declaration of stock dividends in the maximum of 50,241,970 shares for shareholders as of November 27, 2007. Fractional shares related to this declaration were settled in cash amounting to ₱41. The SEC approved the increase in authorized capital stock on March 6, 2008.

On June 14, 2007, the BOD approved the declaration of cash dividends amounting to ₱2,430,832 and 3.01% stock dividends amounting to ₱2,430,712 in favor of the stockholders of record as of July 12, 2007. In addition, on November 6, 2007, the BOD approved the declaration of 8.28% stock dividends amounting to ₱6,882,103 in favor of the stockholders of record as of November 26, 2007. Fractional shares related to this declaration were settled in cash amounting to ₱41.

The movements in the number of shares and capital stock amount for the years ended December 31, 2008, 2007 and 2006 follows:

| | **December 31, 2008** | | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|---|---|
| | **Number of Shares** | **Amount** | Number of Shares | Amount | Number Of Shares | Amount |
| At January 1 | **89,999,959** | **₱89,999,959** | 80,687,187 | ₱80,687,187 | 78,858,121 | ₱78,858,121 |
| Stock dividends | **52,499,041** | **52,499,041** | 9,312,772 | 9,312,772 | 1,829,066 | 1,829,066 |
| Issuance of shares of stock | **48,543,689** | **48,543,689** | – | – | – | – |
| At December 31, respectively | **191,042,689** | **₱191,042,689** | 89,999,959 | ₱89,999,959 | 80,687,187 | ₱80,687,187 |

Capital Management

The primary objective of the Company's capital management policies and procedures are to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and to maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the year ended December 31, 2008 and 2007, respectively.

## 17. Income and Other Taxes

Provision for income tax consists of:

| | 2008 | **2007** | **2006** |
|---|---|---|---|
| Current: | | | |
| RCIT | ₱1,668,247 | **₱8,774,867** | **₱6,300,705** |
| Final | 17,699 | **122,826** | **42,346** |
| | 1,685,946 | **8,897,693** | **6,343,051** |
| Deferred | 185,440 | **30,414** | **1,023,136** |
| | ₱1,871,386 | **₱8,928,107** | **₱7,366,187** |

The components of the net deferred tax assets follow:

| | **2008** | 2007 |
|---|---|---|
| Deferred tax assets on: | | |
| Allowance for impairment and credit losses | **₱4,351,442** | ₱4,684,019 |
| Accrued expenses | **433,512** | 309,236 |
| Past service cost | **68,641** | 81,107 |
| Unrealized foreign exchange gains | – | (35,327) |
| | **₱4,853,595** | ₱5,039,035 |

The Company did not set up deferred tax assets on the allowance for impairment losses amounting to ₱2.56 million as of December 31, 2008 and 2007. The Company believes that it is not probable that this temporary difference will be realized in the future.

The reconciliation of the statutory income tax to the effective income tax follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Statutory income tax | **₱2,567,768** | ₱8,348,526 | ₱8,235,142 |
| Tax effects of: | | | |
| Nondeductible expense | **1,805,649** | – | – |
| Nondeductible interest expense | **30,709** | 72,222 | 24,900 |
| Change in unrecognized deferred tax assets | **708,275** | 526,075 | (874,310) |
| Income subjected to CGT | **(624,530)** | – | – |
| Change in tax rate | **(708,275)** | – | – |
| Interest already subjected to final tax and dividend income | **(1,908,209)** | (49,130) | (19,545) |
| Others | **–** | 30,414 | – |
| Effective income tax | **₱1,871,387** | ₱8,928,107 | ₱7,366,187 |

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that effective July 1, 2005, the RCIT rate shall be 35% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30% and interest expense allowed as a deductible expense shall be 33% of interest income subjected to final tax.

Under current tax regulations, the maximum amount of entertainment, amusement and recreation (EAR) expenses allowable as deduction from gross income for purposes of income tax computation shall not exceed 1% of the gross revenue of a company engaged in the sale of services. As of December 31, 2008 and 2007, EAR expenses amounted to ₱0.33 million and ₱0.30 million, respectively.

## 18. Retirement Plan

The Company has a funded, tax-qualified defined benefit pension plan covering all its officers and regular employees. The benefits are based on years of service and compensation on the last year of service.

The principal actuarial assumptions used in determining retirement liability for the Company's retirement plan as of December 31 are shown below:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Discount rate | **9.82%** | 8.57% | 8.29% |
| Expected rate of return on assets | **7.00** | 7.00 | 7.00 |
| Future salary increases | **10.00** | 10.00 | 10.00 |

The funded status and amounts recognized in the balance sheets for the net pension liability as of December 31, 2008 and 2007 follow:

| | **2008** | 2007 |
|---|---|---|
| Present value of fund obligation | **₱1,096,849** | ₱1,668,419 |
| Fair value of plan assets | **(990,791)** | (934,295) |
| | **106,058** | 734,124 |
| Unrecognized actuarial gains (losses) | **820,726** | (162,414) |
| Net pension liability | **₱926,784** | ₱571,710 |

Movement in the pension liability during the year follows:

| | **2008** | 2007 |
|---|---|---|
| At January 1 | **₱571,710** | ₱659,339 |
| Retirement expense | **355,074** | 368,371 |
| Contributions | **–** | (456,000) |
| At December 31 | **₱926,784** | ₱571,710 |

Movements in the present value of plan obligation follow:

| | **2008** | 2007 |
|---|---|---|
| At January 1 | **₱1,668,419** | ₱1,602,673 |
| Interest cost | **142,984** | 132,862 |
| Current service cost | **277,491** | 255,586 |
| Actuarial gains | **(992,045)** | (322,702) |
| At December 31 | **₱1,096,849** | ₱1,668,419 |
| Experience adjustments | **₱853,586** | ₱275,772 |

Movements in the fair value of plan assets recognized follow:

| | **2008** | 2007 |
|---|---|---|
| At January 1 | **₱934,295** | ₱467,267 |
| Expected return on plan assets | **65,401** | 32,709 |
| Contributions paid by employer | **–** | 456,000 |
| Actuarial loss | **(8,905)** | (21,681) |
| At December 31 | **₱990,791** | ₱934,295 |
| Experience adjustments | **₱8,905** | ₱21,681 |

Actual return on plan assets amounted to ₱0.06 million and ₱0.01 million as of December 31, 2008 and 2007, respectively.

The retirement expense included in salaries and employee benefits in the statements of income follows:

| | 2008 | 2007 |
|---|---|---|
| Current service cost | **₱277,491** | ₱255,586 |
| Interest cost | **142,984** | 132,862 |
| Expected return on plan assets | **(65,401)** | (32,709) |
| Actuarial gains | – | 12,632 |
| | **₱355,074** | ₱368,371 |

The categories of plan assets follow:

| | 2008 | 2007 |
|---|---|---|
| Government securities | **92.46%** | 53.49% |
| Time deposits | **2.31** | 41.71 |
| Accrued interest receivables | **1.25** | 0.22 |
| Savings deposits | **0.08** | 0.79 |
| Others | **3.90** | – |

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

## 19. **Related Party Transactions**

The following transactions have been entered into with related parties:

| | | | Elements of Transactions | | | |
|---|---|---|---|---|---|---|
| | Nature of Related | Nature of | Balance Sheet Amount | | Statement of Income Amount | |
| Related Party | Party Relationship | Transaction | **2008** | 2007 | **2008** | 2007 |
| AIB | Stockholder | Receivables | **₱101,007** | ₱1,276,013 | | |
| | | Note payable | **119,300,000** | 121,800,000 | | |
| | | Car lease contract | **224,772** | 3,903,252 | | |
| | | Interest expense | | | **₱1,332,861** | ₱9,293,706 |
| | | Interest Income | | | – | 200,191 |
| Merg Realty and Development Corporation | Stockholder | Rent expense | | | **591,360** | 484,006 |
| | | Notes payable | **1,500,000** | 1,500,000 | | |
| | | Interest expense | | | **51,945** | 42,481 |
| Honda Motor World | Affiliate | Professional fees | | | **1,440,000** | 44,445 |
| | | Advances | – | 35,512,876 | | |
| | | Receivables | – | 3,560,810 | | |
| | | Payables | **225,152** | 1,162,068 | | |
| Feliz Management, Inc. | Affiliate | Professional fees | | | **945,012** | 600,000 |
| Pikeville Bancshares | Affiliate | Professional fees | | | **930,000** | 692,000 |
| Merg Resources | Affiliate | Rent expense | | | **200,000** | 200,000 |
| Others | Affiliates | Interest expense | | | **88,760** | 294,375 |
| | Directors | Notes payable | **15,001,417** | 4,493,728 | | |
| | Directors | Management fees | | | **720,000** | 1,100,000 |

The remuneration of directors and other members of key management consist of short-term benefits amounting to ₱4.43 million and ₱4.18 million in 2008 and 2007, respectively, included in the Management and Professional Fees account in the statements of income.

## 20. Basic/Diluted Earnings Per Share

EPS amounts were calculated as follows:

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| a. Net income | **₱5,465,094** | ₱15,047,649 | ₱16,205,137 |
| b. Weighted average number of outstanding common shares | **181,729,472** | 81,902,542 | 80,687,184 |
| c. Basic/diluted earnings per share (a/b) | **₱0.03** | ₱0.18 | ₱0.20 |

As of December 31, 2008 and 2007, there were no shares of stock that have a dilutive effect on the EPS of the Company.

## 21. Contingent Liability

In 2003, the Company received a preliminary assessment notice from the BIR for various tax liabilities covering the taxable year 1999 amounting to ₱5.33 million. In 2004, the Company entered into a compromise settlement with the BIR for the settlement of this assessment at ₱0.72 million. Of this amount, ₱0.39 million were paid representing basic deficiency tax and compromise penalty. The balance represents interest. On December 19, 2006, the Company filed an abatement on its outstanding tax liability amounting to ₱0.31 million and has not received any reply as of December 31, 2007.

## 22. Lease Commitment

The Company leases its office space under a lease contract expiring on September 30, 2009. Total rent expense incurred in December 31, 2008 and 2007 amounted to ₱0.96 million. The lease contract is renewable annually upon agreement of the lessor and the Company.

# ANNEX B

## MAKATI FINANCE CORPORATION

**SEC FORM 17-Q**
**FOR THE QUARTER ENDING MARCH 31,2009**
**WITH COMPARATIVE FIGURES FOR 2008**

# COVER SHEET

2 8 7 8 8

S.E.C. Registration Number

M A K A T I   F I N A N C E

C O R P O R A T I O N

(Company's Full Name)

2 ND Floor, Makati

Finance Center 7823

Makati Ave., Makati City

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

**MERLINDA V. CUNANAN**

Contact Person

**897-0749**

Company Telephone Number

| 1 2 | 3 1 | SEC Form 17-Q | 0 6 | |
|---|---|---|---|---|
| Month | Day | FORM TYPE | Month | Day |

Fiscal Year

**2008**

Annual Meeting

Secondary License Type. If Applicable

C R M D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

## SECURITIES AND EXCHANGE COMMISSION

# SEC FORM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **MARCH 31, 2009**
2. Commission identification number **28788** 3. BIR Tax Identification No. **000-473-966**

**MAKATI FINANCE CORPORATION**

4. Exact name of issuer as specified in its charter

**MAKATI CITY, PHILIPPINES**

5. Province, country or other jurisdiction of incorporation or organization

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

| | |
|---|---|
| **7823 MAKATI AVENUE, POBLACION, MAKATI CITY** | **1210** |
| 7. Address of issuer's principal office | Postal Code |

**(0632) 896-02-21**

8. Issuer's telephone number, including area code

N/A

9. Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amoun of debt outstanding |
|---|---|
| **COMMON STOCK** | **191,042,689*** |

**as reported by the stock transfer agent as of March 31, 2009*

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

| | |
|---|---|
| PHILIPPINE STOCK EXCHANGE | Common Stock |

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports) Yes [/] No [ ]

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

## PART I--FINANCIAL INFORMATION

**Item 1. Financial Statements.** ( See Annex A )

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Key Variable and Other Qualitative and Quantitative Indicators

*Financial Ratios (For the Quarter Ending March 31)*

| | *2009* | *2008* |
|---|---|---|
| GROSS MARGIN | 77.04% | 66.30% |
| EBIT MARGIN | 54.91% | 65.69% |
| RETURN ON ASSETS (annualized) | 5.10% | 8.69% |
| DEBT PERFORMANCE | 72.96% | 77.0% |
| RETURN ON EQUITY (annualized) | 3.10% | 10.50% |

Gross margin increased by 10.74%, which is computed by deducting the cost of borrowing from the gross interest revenues. This is due to payment of borrowings of the Company during the year of 2008. The EBIT margin, which measures profitability performance as annualized net income before interest and taxes over the total interest income, decreased from 54.91% in March 2009 to 65.69% in March 2008 as a result of the company's thrust to produce higher quality loan portfolio with lower interest yield. Return on assets was at 5.10% in 2009 against 8.69% in 2008. This ratio of annualized net income over the total assets is an indicator of management effectiveness. The return on equity or the ratio of annualized net income over the stockholder's equity was at 3.10% in March 2009 as against 10.5% in March 2008. The ROE measures the return on funds provided by the stockholders. The income generated steadily grows as the Company grows quality loan portfolio.

Liquidity

As for the Company's working capital requirements, the Company monitors its liquidity position on a daily basis and does not anticipate any cash flow or liquidity problem within the next twelve months. Makati Finance has available credit lines with its parent company, Amalgamated Investment Bancorporation at interest within accepted regulatory requirements to be considered as arms-length transaction and other bank lines. The Company also get other bank lines for possible cash inflow. The Company's acquired assets are being offered at good prices, which is also a good source of funds.

Events that will Trigger Material Direct or Contingent Financial Obligation

There are no expected events that will trigger any material direct or contingent liabilities that the company may incur.

Material Off-Balance Sheet Transactions, Arrangements or Obligations

Last March 27, 2008, the Securities and Exchange Commission approved the follow-on offering of Makati Finance Corporation to raise up to ₱ 166.2 million in fresh capital. The offering is comprised of 75,500,000 new shares and 7,598,892 secondary shares at a price ranging from P 1.46 to P 2 each.

Material Commitments for Capital Expenditure

Expected capital expenditures are part of normal operations of the company. The Company spent its resources on computerization of financial system and spent on major leasehold improvements such as office renovation and IT financial infrastructure.

Results of Operations/Material Changes in Financial Statement Accounts

The company posted a net income of ₱ 3.4 million for the first quarter of 2009. Net interest income for the quarter ending March amounted to ₱ 10.88 million. The thrust in loan production is to produce more low risk, low interest yield loans for higher quality portfolio.

Existing delinquent accounts were still contained and controlled. On operating expenses, increased salaries and benefits contributed to the increase in the operating expenses as of March 2009. On matters of provisioning, the Company continued to be prudent such that even day one past due accounts are provisioned for but only within the limits of the newly implemented Accounting Standards on valuation of assets.

Total assets amounted to ₱356.7 million, of which current assets were at ₱250.8 million. Total liabilities amounting to ₱149 million as of March 31, 2009 was a slight decrease from the 160.9 million from December 2008 due to termination of various private placement. Decreased in factor/business loan production was the reason for the decrease in outstanding borrowings.

Material Events or Uncertainties

The Company had no material foreign exchange transactions, hence the peso depreciation had no direct effect on the company's financials. Management is not aware at this time of any forthcoming trends, uncertainties, demands, or events that would materially affect the Company's liquidity nor would have a material impact on its net income from continuing operations. There are also no material off-balance sheet transactions, arrangements nor obligations with unconsolidated entities. All the company's majority-owned subsidiaries do not have commercial operations as of March 31, 2009.

## PART II--OTHER INFORMATION

NOT APPLICABLE.

There are no material disclosures that have not been reported under SEC Form 17-C covered by this period.

**SIGNATURES**

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

Issuer.................................**TERESITA B. BENITEZ**..........................

Signature and Title...........................**President**..........................

Date ......May 08, 2009

Principal Financial/Accounting Officer/Controller..........**MERLINDA V. CUNANAN**..............

Signature and Title......................................>>..**ACCOUNTING & FINANCE MANAGER**.........................

Date .......May 08, 2009

ANNEX A

# FINANCIAL STATEMENTS

For the Period Ending March 31, 2009
With Comparative Figures for 2008

**MAKATI FINANCE CORPORATION**
**INTERIM BALANCE SHEETS**

| | MARCH 31, 2009 | DEC. 31, 2008 (Audited) |
|---|---|---|
| Current Assets | | |
| Cash on Hand/in Banks | 2,967,937 | 13,076,638 |
| Short Term Investments | 75,150,000 | 75,150,000 |
| Receivables *(Note 3)* | 250,800,470 | 247,354,770 |
| Total Current Assets | 328,918,407 | 335,581,408 |
| Investment Properties | 8,065,724 | 8,250,128 |
| Property & Equipment - net *(Note 3)* | 10,543,118 | 11,407,807 |
| Deferred Tax Asset | 4,853,595 | 4,853,595 |
| Other Assets - net *(Note 4)* | 4,327,395 | 3,637,447 |
| **Total Assets** | **356,708,239** | **363,730,385** |

| | MARCH 31, 2009 | DEC. 31, 2008 (Audited) |
|---|---|---|
| Current Liabilities | | |
| Notes Payable *(Note 6)* | 126,447,471 | 145,325,925 |
| Accrued Expenses | 6,268,641 | 5,689,119 |
| Other Payables | 17,760,084 | 9,920,218 |
| Total | 150,476,196 | 160,935,262 |
| | | |
| Stockholder's Equity | | |
| Capital Stock - P1 par value | | |
| Authorized - 90,000,000 shares | | |
| Issued and Outstanding | 191,042,689 | 191,042,689 |
| Additional Paid in Capital | 5,803,922 | 5,803,922 |
| Deposits for future stock subscription | | |
| Retained Earnings | 9,485,432 | 6,048,512 |
| Net unrealized loss on investments | -100,000 | -100,000 |
| YTD Net Income | | |
| Total | 206,232,043 | 202,795,123 |
| **Total Liabilities and Capital** | **356,708,239** | **363,730,385** |

**MAKATI FINANCE CORPORATION**
**INTERIM STATEMENTS OF INCOME AND RETAINED EARNINGS**
**FOR THE QUARTER ENDING MARCH 31, 2009, 2008 and DEC. 31, 2008**

| | MAR. 2009 | DEC. 2008 (AUDITED) | MAR. 2008 |
|---|---|---|---|
| Interest Income – Loans | 14,123,644 | 46,594,847 | 12,216,834 |
| Interest Income - Short-term Investments | | | 14,815 |
| Cost of Borrowings | 3,241,930 | 11,320,848 | 4,121,952 |
| Net Interest Income | 10,881,714 | 35,273,999 | 8,109,697 |
| Less: Provisions | | 464,242 | 139,266 |
| Net Interest Income After Provision | 10,881,714 | 34,809,757 | 7,970,431 |
| Other Income | 1,108,412 | 11,504,319 | 7,761,693 |
| Operating Expenses | | | |
| Professional Fees | 1,673,392 | 10,599,627 | 887,119 |
| Salaries and Wages | 1,895,781 | 8,034,511 | 918,750 |
| Transportation & Representation | 797,745 | 849,820 | 342,776 |
| Depreciation & Amortization | 1,006,182 | 2,167,863 | 183,201 |
| Commissions | 409,426 | 865,645 | 165,905 |
| Litigation & Asset Acquisition Expense | | | |
| Other Employee Benefits | 7,681 | 154,081 | 35,178 |
| Communications & Utilities | 341,127 | 1,252,353 | 155,999 |
| Rent Expense | 147,840 | 1,160,586 | 318,872 |
| Taxes | 212,130 | 3,051,896 | 624,756 |
| Other Operating Expenses | 588,938 | 10,841,214 | 4,186,702 |
| Total | 7,080,242 | 38,977,596 | 7,819,258 |
| **Net Income Before Income Tax** | **4,909,885** | **7,336,480** | **7,912,866** |
| Provision for Tax/Deferred Tax Adjustment | 1,472,965 | 1,871,386 | 2,990,528 |
| **Net Income After Tax** | **3,436,920** | **5,465,094** | **4,922,338** |
| RETAINED EARNINGS, BEGINNING | **6,048,512** | **55,339,600** | **55,138,223** |
| RETAINED EARNINGS, QUARTER/YEAR-END | **10,958,397** | **6,048,512** | **60,060,562** |
| **BASIC EARNINGS PER SHARE*** | **0.018** | **0.03** | **0.06** |

***As of March 31, 2009, and December 31, 2008,** there were no shares of stock that have a dilutive effect on the earnings per share of the Company.

**MAKATI FINANCE CORPORATION**
**INTERIM CASH FLOW STATEMENTS (in '000)**
**FOR THE QUARTERS ENDING MARCH 31, 2009 and 2008**

| | 2009 MARCH 31 | 2008 MARCH 31 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income Before Tax and Extraordinary Items | 4,909 | 8,405 |
| Adjustments for: | | |
| Provisions for probable losses/impairment losses | | 139. |
| Amortization of deferred tax asset | | |
| Depreciation and amortization | 1,006 | 798 |
| Gain on sale of acquired assets | -43 | 614 |
| Changes in operating assets and liabilities | | |
| Decrease(increase) in the amounts of: | | |
| Receivables | -32,743 | 4,671 |
| Other assets | 38,299 | 264 |
| Increase(decrease) in the amounts of: | | |
| Accrued expenses | 1,057 | -874 |
| Other payables | | |
| Net cash provided by (used in) operations | 12,485 | |
| Interest paid | 2,721 | |
| Income taxes paid | | |
| **Net cash provided by (used in) operating activities** | 9,764 | 15,796 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of property and equipment/acquired assets | | |
| Proceeds from sale of property and equipment | | 280 |
| **Net cash provided by (used in) investing activities** | | 280 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Availments (payments) of notes payable | | 1,000 |
| Payment of private placement | -18,878 | -6,681 |
| **Net cash provided by (used in) financing activities** | (18,878) | -5,681 |
| NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS | -9,114 | 10,395 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 13,077 | 6,087 |
| CASH AND CASH EQUIVALENTS AT END OF QUARTER/YEAR | 3,963 | 16,482 |

**MAKATI FINANCE CORPORATION**
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE QUARTERS ENDING MARCH 31, 2009 and 2008 and DECEMBER 31, 2008**

| | **March 31, 2009** | **Dec. 31, 2008** | **March 31, 2008** |
|---|---|---|---|
| **Capital Stock** | | | |
| Authorized 90,000,000 par value P1 | | | |
| Issued and outstanding | 191,042,689 | 191,042,689 | 89,999,959 |
| Stock dividends | | | |
| Issuance during the year | | | |
| | **191,042,689** | **191,042,689** | **89,999,959** |
| **Additional paid-in capital** | | | |
| Balance, beginning of year | 5,803,922 | 5,803,922 | 4,347,611 |
| Issuance during the year | | | |
| | 5,803,922 | 5,803,922 | 4,347,611 |
| **Retained earnings (deficit)** | | | |
| Balance, beginning of year | 6,048,512 | 55,339,600 | 55,339,600 |
| Adjustment to RE | | | (201,376) |
| Stock dividends | | (52,499,041) | |
| Cash dividends | | (2,257,141) | |
| Net income | 3,436,919 | 5,465,094 | 4,922,338 |
| **Balance, end of quarter/year** | 9,485,432 | 6,048,512 | 60,060,562 |
| Net unrealized loss on investments | -100,000 | -100,000 | -90,000 |
| **Total Equity** | 206,232,043 | 202,795,123 | 204,318,825 |

**MAKATI FINANCE CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**

## 3. Corporate Information

Makati Finance Corporation (the Company) operates as a domestic corporation engaged in the sale of various financial products and services, catering generally to the consumer market. The Company's principal place of business is at 2nd Floor, Makati Finance Centre, 7823 Makati Avenue, Makati City. The Company was listed in the Philippine Stock Exchange on January 6, 2003 and is majority-owned by Amalgamated Investment Bancorporation (AIB).

## 4. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical basis, except for available-for-sale (AFS) investments that have been measured at fair value, and these financial statements are presented in Philippine Peso (₱), the Company's functional currency.

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

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations which became effective on January 1, 2008, and amendments to existing standards that became effective on July 1, 2008.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 11, *PFRS 2 - Group and Treasury Share Transactions*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. Adoption of this Interpretation did not have an impact on the Company's financial statements because it does not have an existing share-based payment scheme.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. Adoption of this Interpretation did not have any impact on the Company's financial statements as it does not have such contractual arrangements.

- Philippine Interpretation IFRIC 14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, *Employee Benefits*. Adoption of this Interpretation did not have an impact on the Company's financial statements as its defined benefit scheme is currently unfunded.

- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosure - Reclassification of Financial Assets.* The amendments to PAS 39 introduce the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivable category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity if there is intent and ability to hold the securities until maturity. The amendments to PFRS 7 introduce the disclosures relating to these reclassifications. Adoption of these amendments did not have any impact on the Company's financial statements since the Company did not avail of the reclassification allowed under these amendments.

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

*Effective in 2009*

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  This Amendment allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
  The Standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires nonvesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a nonvesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a nonvesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, *Operating Segments*
  This Amendment will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for

evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and the company will provide explanations and reconciliations of the differences. This Standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

- Amendment to PAS 1, *Presentation of Financial Statements*
  This Amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the balance sheets and equity as well as additional disclosures to be included in the financial statements.

- Amendment to PAS 23, *Borrowing Costs*
  The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  These Amendments introduce changes in respect of the holding companies' separate financial statements, including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
  These Amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group, the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

*Effective in 2010*

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
  Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and noncontrolling interests (previously referred to as 'minority interests'); even if the losses exceed the noncontrolling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PFRS 3 and PAS 27 must be applied prospectively, while changes introduced by revised PAS 27 must be applied retrospectively, with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interest.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
  Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Amendment 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.

- Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
  This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distribution are:
  c. distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and
  d. distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

  This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
  This Interpretation covers accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and

equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

*Effective in 2012*

- 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. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a 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 the stage of completion.

*Improvements to PFRS*

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. The following are the separate transitional provisions for each standard, which become effective in 2009:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- PAS 16, *Property, Plant and Equipment*
  This amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.

  Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents, and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  This revises the definition of 'past service cost' to include reduction in benefits related to past services ('negative past service cost') and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

  It revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

  It also revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

- PAS 23, *Borrowing Costs*
  This revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investments in Associates*
  If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  This revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*
  If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  When discounted cash flows are used to estimate 'fair value less costs to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  Expenditure on advertising and promotional activities is recognized as an expense when the company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

  It deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for intangible assets with finite lives that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit-of-production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  Changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition, are not reclassifications.

  When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

  It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  It revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Interest income*
Unearned interest income is recognized as income over the terms of the receivable using the effective interest rate (EIR) method. Interest income on nondiscounted receivables is accrued as earned likewise using 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.

*Service charges*
Service charges are recognized only upon collection or accrued when there is reasonable certainty as to its collectibility.

*Dividend income*
Dividend income is recognized when the Company's right to receive the payment is established.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments
*Date of recognition*
The Company recognizes financial assets or financial liabilities in the balance sheet when it becomes a party to the contractual provisions of the instrument. 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 the settlement date.

*Initial recognition of financial instruments*
All financial assets and financial liabilities are recognized initially at fair value. Except for securities measured at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

The Company classifies its financial assets in the following categories: Securities at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities carried at 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.

The Company's financial assets and liabilities are of the nature of loans and receivables and AFS investments, and other financial liabilities, respectively.

*Determination of fair value*
The fair value for financial instruments traded in active markets at the balance sheet date is based on its 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 methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

*Day 1 profit*
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 valuation methodologies whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of 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 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 profit amount.

*Loans and receivables*
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Company has no intention of trading. This accounting policy relates to balance sheet captions, "Cash and cash equivalents" and "Loans and receivables".

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

Loans and receivables are stated at the outstanding balance, reduced by unearned discounts and capitalized interest on restructured loans and allowance for impairment and credit losses.

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.

Client's equity represents the amount withheld by the Company as protection against customer returns and allowances and other special adjustments, which is equivalent to 30% of the receivables factored. This is diminished proportionately as the receivables from factoring are collected.

*AFS investments*

AFS investments are those nonderivative financial assets that are designated as such or are not classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments pertain to golf club shares and an investment in an affiliated company.

After initial measurement, AFS investments are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS investments are excluded from reported earnings and are reported as "Net unrealized gain/loss on AFS investments" in equity.

When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Interest earned on the AFS investment, is reported as interest income using the EIR method. Dividends earned are recognized in the statement of income when the Company's right to receive payment is established. The losses arising from impairment of such investments are recognized in the statement of income.

*Notes payable and other borrowed funds*
Issued financial instruments or their components, which are not designated at FVPL, are classified as notes payable or other appropriate account titles for such borrowed funds, where the substance of the contractual arrangements 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, notes payable and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of EIR.

*Other financial liabilities*
Other financial liabilities are financial liabilities not designated as at FVPL where the substance of the contractual arrangements 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. After initial measurement, other financial liabilities 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 asset*
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when: (a) the rights to receive cash flows from the assets have expired; (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or (c) the Company has transferred its right to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred control of 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 of 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 the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liability*
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 income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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 balance sheet 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 or the group of financial assets 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and receivables*
If there is objective evidence that a credit loss on loans and receivables has been incurred, 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 yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of income. Interest income continues to be accrued 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 credit loss decreases because of an event occurring after the impairment was recognized, the previously recognized credit loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for impairment and credit losses" account in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a receivable has a variable interest rate, the discount rate for measuring any credit loss is the current effective interest rate, adjusted for the original credit risk premium.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

*AFS financial assets*
In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of changes in equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of changes in equity.

Investments in Subsidiaries
Subsidiaries pertain to all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Company's investments in subsidiaries are accounted for under the cost method less any accumulated impairment in value.

*Impairment of investments in subsidiaries*
The Company reviews its investments in subsidiaries for impairment. This includes considering certain indicators of impairment such as the following:

- significant underperformance relative to expected historical or projected 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.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as income or loss in the statement of income.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Furniture, fixtures and equipment | 5 years |
| Leasehold rights and improvements | 10 years or over the period of the lease, whichever is shorter |
| Transportation equipment | 5 years |

The useful lives and the depreciation and amortization 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 items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Foreclosed properties are classified under investment properties from foreclosure date.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Amortization of improvements is calculated on a straight-line basis over the estimated useful life of 15 years from the time of acquisition of the investment property.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognized in the statement of income in the year of derecognition.

Software Costs
Software costs, included under "Other Assets" account in the balance sheet, include costs incurred relative to the development of the Company's software. Software costs are amortized over five years on a straight-line basis from the date of its actual use.

Impairment of Nonfinancial Assets
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 recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs 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 (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 (or cash-generating unit).

An impairment loss is charged against 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 against the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any 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 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 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.

Foreign Currency Transactions and Translation

Foreign currency-denominated assets and liabilities are translated to Philippine peso at the prevailing Philippine Dealing and Exchange Corp (PDex), formerly Philippine Dealing System, at the balance sheet date while foreign currency-denominated income and expenses are translated into their Philippine pesos equivalent based on the weighted average rate at transaction dates. Exchange gains or losses arising from foreign currency-denominated transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against current operations.

Income Taxes

*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 enacted or substantively enacted by the balance sheet date.

*Deferred tax*

Deferred tax is provided, 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 with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 asset to be utilized. Unrecognized deferred tax assets are reassessed as at balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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 balance sheet date.

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

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:

e. there is a change in contractual terms, other than a renewal or extension of the arrangement;
f. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
g. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
h. 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 income on a straight-line basis over the lease term.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, 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. 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 assessment 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 interest expense.

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

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development cost (included in real estate inventories, investment properties and property, plant and equipment). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate from general borrowings and the actual borrowing costs eligible for capitalization for funds borrowed specifically.

Retirement Cost
The Company has a funded, noncontributory defined benefit retirement plan, administered by trustees, covering their permanent employees.

The retirement cost of the Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the balance sheet in respect of defined benefit retirement plans is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working life of the employees participating in the plan.

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

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Basic/Diluted Earnings Per Share
Basic/diluted earnings per share (EPS) is computed based on the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared and stock rights exercised during the year.

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

**1. Receivables**

Receivables consist of:

| | Mar-09 | Dec-08 |
|---|---|---|
| Loans receivable | 358,833,082 | 353,146,679 |
| Due from affiliates | 184,373 | 184,373 |

| | | |
|---|---|---|
| Notes receivable | 222,353 | 222,353 |
| Others | 22,959,320 | 10,349,410 |
| | 367,367,324 | 363,902,815 |
| Unearned interest income/discount | -103,606,856 | -103,588,046 |
| Allowance for impairment losses | -12,959,999 | -12,959,999 |
| | 250,800,469 | 247,354,770 |

**Property and Equipment**

The movements of property and equipment during the year follow:

| | Furniture, Fixtures and Equipment | Leasehold Improvements | Transportation Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, January 1, 2009 | 4,567,711 | 873,326 | 8,286,540 | 13,727,577 |
| Additions | 57,089 | - | - | 57,089 |
| Retirement | - | - | - | - |
| Balance, March 31, 2009 | 4,624,800 | 873,326 | 8,286,540 | 13,784,666 |
| **Accumulated Depreciation and Amortization** | | | | |
| Balance, January 1, 2009 | 217,403 | 22,446 | 2,079,920 | 2,319,769 |
| Depreciation and amortization | 250,524 | 22,446 | 648,809 | 921,779 |
| Balance, March 31, 2009 | 467,927 | 44,892 | 2,728,729 | 3,241,548 |
| **Net Book Value** | | | | |
| March 31, 2009 | **4,156,873** | **828,434** | **5.557,811** | **10,543,118** |
| **Dec. 31, 2008(Audited)** | **4,350,307** | **850,880** | **6,206,619** | **11,407,806** |

**2. Other Assets**

This account consists of:

| | Mar-09 | Dec-08 |
|---|---|---|
| Prepaid expenses | 102,429 | 102,429 |
| AFS investments | 75,150,000 | 75,150,000 |
| Investments in subsidiaries | 100,000 | 100,000 |
| Miscellaneous | 3,535,017 | 672,855 |
| | 79,477,394 | 78,887,447 |

As of March 31, 2009 and December 31, 2009, investments in associates pertain to investments in shares of stock of the following:

| | |
|---|---|
| Acquisition costs: | |
| Commercial and Consumer Credit Corporation (3C) (100% owned) | ₱1,000,000 |
| Global Credit and Management Group/3C (GCMGI/3C) (51% owned) | 1,000,000 |
| 3C – Pawnshop (100% owned) | 100,000 |
| | 2,100,000 |
| Allowance for impairment losses | (2,000,000) |
| | ₱100,000 |

The Company discontinued applying the equity method for its investments in 3C and GCMGI/3C since the acquisition costs were reduced to zero by the accumulated share in net losses of these subsidiaries. As of March 31, 2009, 3C Pawnshop has not yet started commercial operations.

### 3. Notes Payable

This represents unsecured short-term loans from the Company's stockholders with interest rates ranging from 8.00% to 11.83% per annum in 2009 and 2008.

### 4. Stockholders' Equity

On June 19, 2008, the BOD approved the declaration of 2.51% stock dividends in the aggregate amount of P2,257,147 in favor of the stockholders of record as of July 17, 2008, with a payment date not later than August 12, 2008. On the same date, the BOD also approved the declaration of cash dividends amounting to ₱2,257,147. Fractional shares related to this declaration were settled in cash amounting to ₱35.

In 2007, the Company received an additional capital infusion from its stockholders for their subscription of 48,543,689 shares to be issued out of the proposed increase in authorized capital stock from 90 million common shares to 300 million common shares with a par value of ₱1 per share. This was recorded as deposits for future stock subscription in the amount of ₱50.00 million. In addition, the BOD approved the declaration of stock dividends in the maximum of 50,241,970 shares for shareholders as of November 27, 2007. Fractional shares related to this declaration were settled in cash amounting to ₱4. The SEC approved the increase in authorized capital stock on March 6, 2008.

On June 14, 2007, the BOD approved the declarationof cash dividends amounting to ₱2,430,832 and 3.01% stock dividends amounting to ₱2,430,712 in favor of the stockholders of record as of July 12, 2007. In addition, on November 6, 2007, the BOD approved the declaration of 8.28% stock dividends amounting to ₱6,882,103 in favor of the stockholders of record as of November 26, 2007. Fractional shares related to this declaration were settled in cash amounting to ₱41.

AGING OF RECEIVABLES
AS OF MARCH 31, 2009

| CLASSIFICATION | CURRENT | 1-30 DAYS | 31-60 DAYS | 61-90 DAYS | 91-180 DAYS | > 180 DAYS |
|---|---|---|---|---|---|---|
| **A. Trade Receivables** | | | | | | |
| **Loans Receivable (Gross PN Value)*** | | | | | | |
| As to Maturity Date: | | | | | | |
| Within 1 year or less | - | - | - | - | - | - |
| Maturity after 1 year | - | - | - | - | - | - |
| **Loan Receivables** | 325,856,724 | 2,382,130 | 241,325 | 2,338,698 | 226,461 | 27,787,743 |
| **SUB-TOTAL** | **325,856,724** | **2,382,130** | **241,325** | **2,338,698** | **226,461** | **27,787,743** |
| Less: Allowance for Doubtful Accounts | | | | | | 12,959,999 |
| **Net Trade Receivables** | **325,856,724** | **2,382,130** | **241,325** | **2,338,698** | **226,461** | **14,827,744** |

***Gross PN Value=Principal + Unearned Interest & Discount/Clients' Equity amounting to P358.8Mn while allowance is for principal only. (Please see notes on Receivables)**

| CLASSIFICATION | CURRENT | 1-30 DAYS | 31-60 DAYS | 61-90 DAYS | 91-180 DAYS | > 180 DAYS |
|---|---|---|---|---|---|---|
| **B. Non-Trade Receivables** | | | | | | |
| **Due from Subsidiaries/Affiliates** | | | | | | |
| As to Maturity Date: | | | | | | |
| Within 1 year or less** | | - | - | - | - | 184,373 |
| Maturity after 1 year | 8,349,869 | - | - | - | - | - |
| **SUB-TOTAL** | **8,349,869** | **-** | **-** | **-** | **-** | **184,373** |
| Less: Allowance for Doubtful Accounts | | - | - | - | - | |
| **Net Non-Trade Receivables** | **8,349,869** | **-** | **-** | **-** | **-** | **184,373** |
| **NET RECEIVABLES** | **334,206,593** | **2,382,130** | **241,325** | **2,338,698** | **226,461** | **15,012,117** |

| | |
|---|---|
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