

SEC Number **168736**  
File Number \_\_\_\_\_

**EASYCALL COMMUNICATIONS PHILIPPINES, INC.**  
(Company's Full Name)

**Mary Bachrach Building 25<sup>th</sup> St. corner A. C. Delgado St., Port Area Manila**  
(Company's Address)

**(632) 528-1263**  
(Telephone Number)

**December 31**  
(Calendar Year Ending)

**SEC Form 17-Q**  
Form Type

**September 30, 2010**  
Period Ended Date

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(Secondary License Type and File Number)

# 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 – **September 30, 2010**
2. Commission identification number -**168736**
3. BIR Tax Identification No – **000-586-363**
4. Exact name of issuer as specified in its charter

**EASYCALL COMMUNICATIONS PHILIPPINES, INC.**

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

**METRO MANILA, PHILIPPINES**

6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
**2<sup>nd</sup> Floor Mary Bachrach Building, 25<sup>th</sup> St. corner  
A. C. Delgado St., Port Area, Manila** **1080**

8. Issuer's telephone number, including area code  
**(632) 528-1263**

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 issued and subscribed

Title of each Class	Number of shares of common stock issued and subscribed
<b>Common Shares</b>	<b>150,000,000 shares</b>

**Exempt from registration under Section 6(11) of the Revised Securities Act and confirmed by SEC on January 15, 1992 and on subsequent dates.**

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 Shares**

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.

Please refer to the attached Financial Statements.

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

#### SUMMARY

For the third quarter ended September 30, 2010, EasyCall Communications Philippines, Inc. (the Company) arrived at a consolidated net income of ₱3.24 million, compared to ₱1.42 million net income recorded on the same period last year. The increase in net income of 128% was primarily from the dividends given by EPMAX of ₱2.68 million aside from the decrease in General and Administrative expenses.

During the 3rd quarter of 2010, EasyCall E-Services Inc., a wholly owned subsidiary, recorded ₱ 4.59 million service revenue, an increase of 19% compared to the year ago level of ₱3.87 million. Cost of services amounting to ₱2.58 million an increase of 39% compared to ₱1.86 million last year same quarter. General and administrative (G&A) expenses this quarter amounted to ₱1.61 million a decrease of 20% as compared to ₱1.34 million last year.

The financial performance of its operating companies (i.e. eServe and ePerformax) is being assessed using the subsequent key financial ratios.

	Easycall E-Services Inc		ePerformax International, Inc.	
	YTD September 30, 2010	One Year Ended December 31, 2009	YTD September 30, 2010	One Year Ended December 31, 2009
Current Ratio	1.63	1.20	1.42	1.61
Gross Margin - Amt in 000 Php	5,288	6,173	394,423	404,890
Gross Profit Rate	51.40%	46.83%	30.72%	20.46%
Percentage of Operating Expenses to Sales	39.75%	38.42%	38.50%	15.22%
Profit Ratio	11.76%	7.73%	-0.18%	3.25%

Current Ratio is calculated by dividing current assets by the current liabilities. Gross Margin is service revenues less cost of services (i.e., cost of leased line subscriptions for e-Serve; cost of services for e-Performax). Gross Profit Rate is arrived by dividing the gross margin amount computed above by the service revenues. Percentage of Operating Expense to Revenues is computed by dividing the total general and administrative expenses by the service revenues. Profit ratio is the outcome of dividing the net income over total sales.

## **REVENUES**

During the third quarter of 2010, the Company's consolidated service income arrived at ₱4.59 million compared to the year ago level of ₱3.87 million. This 18% increase can be mainly attributed to new segment technical support business offered to its member companies this year. EasyCall eServices, Inc., a wholly owned subsidiary of the company contributed revenue ₱3.47 million and ₱1.12million was from Easycall Communication Philippines, Inc.

## **COST AND EXPENSES**

On the other hand Direct cost of services (i.e., cost of leased line subscriptions) also increased by 31.63% from ₱1.96million from third quarter of 2009 to ₱2.58 million this quarter. Increase in direct cost was mainly from new business segment. General and administrative expenses arrived at ₱1.61 million this quarter compared to ₱1.87 million last year or a 14% decrease. This decrease can be mainly attributed to reduction of management expenses as well as legal fees incurred during last year.

## **EQUITY IN NET EARNINGS OF AN ASSOCIATE**

Based on the company's 3.8% interest on ePerformax International Inc., the Company recognized equity in net earnings of negative ₱ 283K for the third quarter of 2010.

## **OTHER INCOME**

During third quarter this year, the company recognized other income of ₱ 3.13 million, a 1741% increase compared to last year's other income of ₱0.17 million. This difference mainly came from dividends company gets from EPMAX.

## **CASH**

Cash amounted to ₱54.42 million as of the end of third quarter of 2009 or an increase of 1017% from ₱4.87 million as of December 31, 2009. Increase in cash was mainly from increase in capital stock during the year.

## **RECEIVABLES**

Receivables totaled ₱8.4 million during the third quarter of 2010 compared to ₱9.6 million as of as of December 31, 2009 or a 13% decrease.

## **PREPAID EXPENSE AND OTHER ASSETS**

Prepaid expenses arrived at P1.5 million as of September 30, 2010 compared to P.65 million for 2009 or an increase of 130%. This is primarily due to increase of prepayments on subscription dues and annual maintenance this year.

## **INVESTMENTS**

The investment amount arrived at P24.43M for the third quarter of 2010 compared P30.22 balance as of as of December 31, 2009, the decrease is basically resulted from company's share in Cumulative Translation Adjustment from ePerformax International.

## PROPERTY AND EQUIPMENT

The net value of property, plant and equipment decreased by 17%, from ₱12.81 million as of December 31, 2009 to ₱10.60 million by the end of third quarter of 2010.

## CURRENT LIABILITIES

Total current liabilities declined from P3.38 million as of December 31, 2009 down to P2.43 million by the end of the third quarter in 2010 or an equivalent of 28%, primarily on relation of the subsequent movements:

- a. **Accounts payable and accrued expenses** – This account decrease by 31% from ₱3.06 million as of December 31, 2009 up to ₱2.11 million as of September 30, 2010
- b. **Advances from Stockholders** – Advances from Stockholders decreased by 13% from P22.39 million as of December 31, 2009 to P19.39 million for the quarter ended September 30, 2010. The decrease is a result of partial settlement of advances to GEBSI .

## SHARE IN CUMULATIVE TRANSLATION ADJUSTMENT

This represents the Company's 3.8% share in cumulative translation adjustments of its associate, ePerformax International. The decrease of 19% from the balance of P3.16 million as of December 31, 2009 to P-2.54 million by the end of September 30, 2010 can be attributed to the movement of cumulative translation adjustments in the book of its associate, ePerformax International.

### ***Discussions and Analysis of material event/s and uncertainties known to management that would have address the past and would have an impact on future operations of the following:***

- a. There are **NO** known trends, demands, commitments, event or uncertainties that will have an impact on the issuer's future liquidity.
- b. There are **NO** known event/s that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c. There are **NO** material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- d. There are **NO** material commitments for capital expenditures that occurred during the reporting period.
- e. There are **NO** known trends, events or uncertainties that are expected to have material impact on net sales/revenues/income from continuing operations that occurred during the reporting period.

- f. There are **NO** significant elements of income or loss that did not arise from the issuer's continuing operations that occurred during the reporting period.
- g. There are **NO** seasonal aspects that had a material effect on the financial condition or results of operation.

## **PART II - OTHER INFORMATION**

**None**

**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 – EASYCALL COMMUNICATIONS PHILIPPINES, INC.**

  
**SOCORRO Z. NIROS**  
President

Date: November 10, 2010

  
**CARLO M. SEVERINO**  
Treasurer/Chief Information Officer

Date: November 10, 2010

  
**RENATO VICENTE R. MARTINEZ**  
General Manager

Date: November 10, 2010



EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY

Consolidated Financial Statements  
As of September 30, 2010 and December 31, 2009,  
For the Third Quarter Ended September 30, 2010,  
And Quarter Ended September 30, 2009

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<b>EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY</b>		
<b>CONSOLIDATED BALANCE SHEETS</b>		
<i>(in Php)</i>	<b>30-Sep-10</b>	31-Dec-09
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	54,424,897	4,873,292
Trade and other receivables- net (Note 5)	8,443,967	9,600,906
Prepaid expenses and other current assets	1,508,576	653,267
	<b>64,377,440</b>	<b>15,127,465</b>
Assets held for sale (Note 8)	2,081,535	2,081,535
<b>Total Current Assets</b>	<b>66,458,975</b>	<b>17,209,000</b>
<b>Noncurrent Assets</b>		
Investments in shares of stock (Note 6)	24,427,069	30,221,020
Property and equipment - net (Note 7)	10,602,045	12,807,262
Retirement benefit assets	80,100	80,100
Input value-added taxes (VAT)	1,922,272	1,923,694
<b>Total Noncurrent Assets</b>	<b>37,031,486</b>	<b>45,032,076</b>
<b>TOTAL ASSETS</b>	<b>103,490,461</b>	<b>62,241,076</b>
<b>LIABILITIES AND CAPITAL DEFICIENCY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 9)	2,428,692	3,380,952
Payable to related parties (Note 11)	-	-
Advances from Stockholders (Notes 1 and 10)	19,392,332	22,392,332
Income Tax Payable	-	-
<b>Total Current Liabilities</b>	<b>21,821,024</b>	<b>25,773,284</b>
<b>Noncurrent Liabilities</b>		
Retirement Benefit Obligation	-	-
Deferred Tax Liability	24,030	24,030.00
Advances from Stockholders	-	-
<b>Total Noncurrent Liabilities</b>	<b>24,030</b>	<b>24,030</b>
<b>Equity</b>		
Capital stock (Note 1 and 11)	150,000,000	103,429,975
Deposits for future subscription (Note 1)		-
Share in cumulative translation adjustments (CTA) of an associates (Note 6)	(2,540,834)	3,164,891
Deficit (Note 1)	(65,813,759)	(70,151,104)
<b>Total Equity</b>	<b>81,645,408</b>	<b>36,443,762</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)</b>	<b>103,490,461</b>	<b>62,241,076</b>
<i>See accompanying Notes to Consolidated Financial Statements</i>		

<b>EASYCALL COMMUNICATIONS PHILIPPINES, INC.</b>				
<b>AND SUBSIDIARY</b>				
<b>CONSOLIDATED STATEMENTS OF INCOME</b>				
<i>(Unaudited)- in Php</i>				
	<b>Quarter Ended September</b>		<b>Year to Date</b>	
	<b>2010</b>	<b>2009</b>	<b>Jan - Sept 2010</b>	<b>Jan - Sept 2009</b>
<b>SERVICE INCOME</b>	<b>4,587,088</b>	3,873,367	<b>13,799,346</b>	12,750,007
<b>COST OF SERVICES</b>	<b>2,583,402</b>	1,959,472	<b>7,100,438</b>	6,394,343
<b>GROSS INCOME</b>	<b>2,003,686</b>	1,913,894	<b>6,698,908</b>	6,355,664
<b>GENERAL AND ADMINISTRATIVE (Note 13)</b>	<b>(1,613,112)</b>	(1,867,927)	<b>(5,808,040)</b>	(6,498,930)
<b>GAIN ON SALE OF INVESTMENTS</b>			-	-
<b>EQUITY IN NET EARNINGS OF AN ASSOCIATE (Note 7)</b>	<b>(283,799)</b>	1,205,618	<b>(88,226)</b>	1,236,873
<b>DIVIDEND INCOME</b>				
<b>OTHER INCOME (Note 14)</b>	<b>3,134,544</b>	165,074	<b>3,534,703</b>	505,912
<b>NET INCOME (LOSS)</b>	<b>3,241,319</b>	1,416,659	<b>4,337,345</b>	1,599,519
<b>Basic Earnings Per Share</b>	<b>0.02</b>	0.01	0.03	0.02
<i>See accompanying Notes to Consolidated Financial Statements</i>				

<b>EASYCALL COMMUNICATIONS PHILIPPINES INC.</b>					
<b>AND SUBSIDIARY</b>					
<b>CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS'</b>					
<b>EQUITY (CAPITAL DEFICIENCY)</b>					
<i>(Unaudited)- in Php</i>					
	<b>Capital Stock</b>	<b>Deposits</b>	<b>Share in</b>	<b>Deficit</b>	
	<b>(Note11)</b>	<b>for Future</b>	<b>Cumulative</b>	<b>(Note 1)</b>	<b>Total</b>
		<b>Stock</b>	<b>Translation</b>		
		<b>Subscripti</b>	<b>Adjustment</b>		
		<b>ons (Note</b>	<b>(Note 6)</b>		
		<b>1)</b>			
<b>Balances at January 1, 2010</b>	<b>103,429,975</b>	<b>-</b>	<b>3,164,891</b>	<b>(70,151,104)</b>	<b>36,443,762</b>
					<b>-</b>
<b>Additions</b>	<b>46,570,025</b>				<b>46,570,025</b>
					<b>-</b>
<b>Share in CTA of an associate (Note 6)</b>	<b>-</b>		<b>(5,705,724)</b>		<b>(5,705,724)</b>
<b>Net Income for the period</b>	<b>-</b>	<b>-</b>		<b>4,337,345</b>	<b>4,337,345</b>
<b>Total Comprehensive income for the year</b>	<b>46,570,025</b>		<b>(5,705,724)</b>	<b>4,337,345</b>	<b>45,201,646</b>
<b>Balances at September 30, 2010</b>	<b>150,000,000</b>	<b>-</b>	<b>(2,540,834)</b>	<b>(65,813,759)</b>	<b>81,645,408</b>
	<b>Capital Stock</b>	<b>Deposits</b>	<b>Share in</b>	<b>Deficit</b>	<b>Total</b>
	<b>(Note12)</b>	<b>for Future</b>	<b>Cumulative</b>		
		<b>Stock</b>	<b>Translation</b>		
		<b>Subscriptio</b>	<b>Adjustment</b>		
		<b>ns (Note 1)</b>	<b>(Note 7)</b>		
<b>Balances at January 1, 2009</b>	<b>91,929,975</b>	<b>-</b>	<b>(1,790,398)</b>	<b>(73,221,861)</b>	<b>16,917,716</b>
<b>Additions</b>	<b>11,500,000</b>		<b>1,828,563</b>		<b>13,328,563</b>
<b>Net Income for the period</b>	<b>-</b>	<b>-</b>		<b>1,599,519</b>	<b>1,599,519</b>
<b>Balances at September 30, 2009</b>	<b>103,429,975</b>	<b>-</b>	<b>38,165</b>	<b>(71,622,342)</b>	<b>31,845,798</b>
<i>See accompanying Notes to Consolidated Financial Statements</i>					

<b>EASYCALL COMMUNICATIONS AND SUBSIDIARY</b>			
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>			
<i>(Unaudited)</i>			
		<b>Year to Date</b>	
		<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)		4,337,345	182,860
Adjustments for:			
	Common Stock	46,570,025	11,500,000
	Depreciation and amortization (Note 8)	2,205,217	42,424
	Dividend Income		
	Equity in net earnings (Note 7)	88,226	(31,255)
	Capital Gains Tax and Documentary stamps tax expense		
	Gain on Sale of Investment in ePerformax		
	Interest income	(22,680)	340,838
Operating income (loss) before working capital changes		53,178,134	12,034,866
Decrease (increase) in:			
	Receivables	1,156,939	(3,430,333)
	Prepaid expenses and other current assets	(855,309)	(290,862)
Increase (decrease)			
	Payable to Related Parties		
	Accounts payable and accrued expenses	(3,952,260)	(639,770)
	Retirement benefit obligation		
Net cash used in operations		49,527,504	7,673,901
Interest received		22,680	(340,838)
Capital Gains Tax and Documentary stamps tax payments			
Income taxes paid			
<b>Net cash used in operating activities</b>		<b>49,550,183</b>	<b>7,333,063</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of:			
Investment in shares of stock			
Dividends received			
Changes in accounts with related parties			(10,099,857)
Increase in Input Vat		1,422	
Acquisition of investments in shares of stock			
Additions to property and equipment (Note 8)			(7,971,815)
<b>Net cash from investing activities</b>		<b>1,422</b>	<b>(18,071,673)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>49,551,605</b>	<b>(10,738,610)</b>
<b>CASH AT BEGINNING OF PERIOD (YEAR)</b>		<b>4,873,292</b>	<b>18,259,361</b>
<b>CASH AT END OF PERIOD</b>		<b>54,424,897</b>	<b>7,520,751</b>
<i>See accompanying Notes to Consolidated Financial Statements</i>			

## **EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

Easycall Communications Philippines, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1989 primarily to operate a paging business in the Philippines. The Company was listed in the Philippine Stock Exchange (PSE) in May 1992.

Since the closure of the paging business in 2002 as a result of the development of short messaging service of cellular phone companies, the Company engaged in the contact center outsourcing business and information technology related business. In 2008 and 2007, the Company has no operating activities. The operations of these businesses are carried out since 2009 by its subsidiary, Easycall e-Services, Inc. (e-Serve), a company engaged in information technology services.

Starting November 2005, the management and administrative functions of the Company are being handled by Transnational e-Business Solutions, Inc. (TESI), an affiliate.

Global e-Business Solutions, Inc. (GeBSI), a company organized in the Philippines, owns 56.15% interest, when McMal, Inc. assigned its 8.56% interest in the Company on September 19, 2006. The ultimate parent of the Company is Transnational Diversified Corporation (TDC), a company organized in the Philippines. In 2004, GeBSI carried out its financial commitment to support the operations of the Company by subscribing ₱60,000,000 of the Company's capital stock.

On November 26, 2004, the Board of Directors (BOD) approved the following:

- a. Merger of TESI with the Company. TESI is an information technology company, which is a wholly owned subsidiary of TDC.
- b. Private placement by GeBSI for 100 million shares or ₱100,000,000 to be taken from the Company's unsubscribed capital stock in order to address and enhance the current capital deficiency of the Company and e-Serve (collectively referred to as "the Group").

The Board further approved that this private placement shall be paid in the form of:

- i. The conversion of outstanding advances and liabilities of the Company to GeBSI and its affiliates;
- ii. The agreed valuation of TESI to be approved by the shareholders; and
- iii. Additional cash infusion.

This private placement shall be subject to the necessary clearance and authorization of governing regulatory agencies. Consequently, in 2005, GeBSI converted its advances amounting to ₱22,310,284 to into deposits for future stock subscriptions.

On July 19, 2006, the stockholders approved the indefinite suspension of the planned merger to seek further guidance in the documentation and compliance requirements of the plan since the Company is in the course of completing the valuation processes and reviewing the business model of the proposed merger.

In October 2008, GeBSI reverted back its deposits for future stock subscriptions to advances from a stockholder (see Note 11). As of April 1, 2009, there is no new development on the planned merger.

The registered office address of the Company is 2nd Floor, Mary Bachrach Building, 25th corner A.C. Delgado Streets, Port Area, Manila.

The consolidated financial statements of the Group as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were authorized for issue by the BOD on April 1, 2009.

#### Segment Information

The Group has only one segment in 2008, 2007 and 2006 which is the internet segment. The results of the internet segment are reflected in the consolidated statements of income.

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## **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency.

#### Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

#### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and e-Serve, a 100% owned subsidiary.

A subsidiary is consolidated from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. When there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

The financial statements of a subsidiary are prepared for the same reporting year as the parent company. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany balances and transactions, including intercompany profits and losses are eliminated.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following revised and amended PFRS which the Group has adopted starting January 1, 2009:

#### *Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements*

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

#### *Amendments to PFRS 7, Financial Instruments: Disclosures*

The amendments to PFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, presented by class, for all financial instruments remeasured at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. Adoption of this amendment did not have significant impact on the fair value disclosures since all of the carrying values of the financial instruments approximate their fair values due to their short-term nature (see Note 21).

#### *Amendments to PFRS 1, First-time Adoption of PFRS, and PAS 27, Consolidated and Separate Financial Statement - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amendments to PFRS 1 allowed an entity to determine the “cost” of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27 or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the parent company statement of comprehensive income. The revision to PAS 27 was applied prospectively. The new requirement affects only the parent company financial statements and does not have an impact on the consolidated financial statements.

Adoption of the following new, revised and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS did not have any significant impact to the Group.

#### *New and Revised Standards and Interpretations*

- PAS 23, *Borrowing Costs* (Revised)
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*



#### *Amendments to Standards and Interpretations*

- PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

#### *Improvements to PFRS*

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 18, *Revenue*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*
- PAS 41, *Agriculture*

#### New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2009

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations from IFRIC to have significant impact on its consolidated financial statements.

#### *Effective in 2010*

##### *Revised PFRS 3, Business Combinations, and Amendments to PAS 27, Consolidated and Separate Financial Statements*

The revised and amended standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

*Amendments to PFRS 2, Share-based Payments - Group Cash-settled Share-based Payment Transactions*

The amendments to PFRS 2, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the consolidated balance sheet or consolidated statement of comprehensive income of the Group as it has not entered into any such share-based payment transactions.

*Amendment to PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

The amendment to PAS 39, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the consolidated balance sheet or consolidated statement of comprehensive income of the Group, as it has not entered into any such hedges.

*Philippine Interpretations IFRIC 17, Distributions of Non-Cash Assets to Owners*

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements as it has not made non-cash distributions to shareholders in the past.

*Improvements to PFRS Effective 2010*

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

- *PFRS 2, Share-based Payments*
  - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised). The amendment is effective for financial years on or after July 1, 2009.
  
- *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*
  - Clarifies that the disclosures required with respect to noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.
  
- *PFRS 8, Operating Segments*
  - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
  
- PAS 7, *Cash Flow Statements*
  - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
  
- PAS 17, *Leases*
  - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
  
- PAS 36, *Impairment of Assets*
  - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
  
- PAS 38, *Intangible Assets*
  - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
  
- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
  - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
  - Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect comprehensive income.
  
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  - Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

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

*Effective in 2011*

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor. An entity shall not apply this Interpretation to transactions in situations where: (a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder; (b) the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity; and (c) extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

*Effective in 2012*

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

*Effective in 2013*

PFRS 9, *Financial Instruments*

PFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. They require all financial assets to be: (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and (c) subsequently measured at amortized cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of PAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in PAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairments. The Group will assess the impact of the standard on its consolidated financial statements.

## Revenue Recognition

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

### *Service Income*

Service income is recognized when the related services have been rendered.

### *Interest Income*

Interest income from bank deposits are recognized as it accrues using the effective interest rate method.

## Cost and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when the services are used or the expense arises while interest expenses are accrued in the appropriate period.

### *Costs of Services*

Costs of services, which comprise mainly of costs of providing information technology services, are recognized when incurred.

### *General and Administrative Expenses*

General and administrative expenses are generally recognized when the service is used or the expense arises.

## Cash and Cash Equivalents

Cash includes cash with 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 date of placement and that are subject to an insignificant risk of change in value.

## Financial Instruments

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date.

All regular way purchases and sales of financial asset are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at FVPL, the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group's financial assets are of the nature of loans and receivables. As of December 31, 2009 and 2008, the Group has no outstanding financial assets at FVPL, HTM investments and AFS financial assets. Also, under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities. As of December 31, 2009 and 2008, the Group has no outstanding liabilities at FVPL.

### *Loans and Receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated at FVPL.

This accounting policy applies primarily to the Group's "Cash and cash equivalents" and "Trade and other receivables". Loans and receivables are classified as current assets when these are expected to be realized within twelve months after the balance sheet date or within the normal operating cycle, whichever is longer.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. 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, if any, is included in the consolidated statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts.

### *Other Financial Liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group 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, other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of comprehensive income.

This accounting policy applies primarily to the Group's "Trade and other payables", "Advances from a stockholder" and other obligations that meet the above definition (other than liabilities covered by other accounting standards such as retirement benefit obligation and income tax payable).

Other financial liabilities are classified as current liabilities when these are expected to be settled within twelve months from the balance sheet date or the Group has an unconditional right to defer settlement for at least twelve months from the balance sheet date.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

## Derecognition of Financial Instruments

### *Financial Assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

1. the rights to receive cash flows from the asset have expired;
2. the Group 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
3. the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group 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 Group’s continuing involvement in the asset.

### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or 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 consolidated statement of comprehensive income.

## Investment in Shares of Stock

Investments in shares of stock pertains to the Group’s investment in ePerformax International, Inc. (ePerformax International), which represents 3.8% ownership. Investment in shares of stock is accounted for under the equity method of accounting.

Under the equity method, the investment is carried in the consolidated balance sheet at cost adjusted for the equity in net income or losses and changes in the investee’s equity account since the date of acquisition. Dividends received are treated as a reduction in the carrying value of the investment. Unrealized intercompany profits or losses are eliminated to the extent of the Group’s proportionate share thereof.

Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the consolidated financial statements of the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

ePerformax International is an associate of the Group. An associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies of the entity. The Group exercises its significant influence in ePerformax International through its representation on the BOD and participation in the policy-making processes.

### Assets Held for Sale

Assets are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale is measured at the lower of its carrying amount and fair value less cost to sell. Any liabilities associated with these assets are presented separately in the consolidated balance sheet.

### Property and Equipment

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

The initial cost of property and equipment comprises of its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the property and equipment 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 to expense in the period 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.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets of three (3) to five (5) years.

The depreciation method and estimated useful lives are reviewed periodically to ensure that the method and periods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, their cost, accumulated depreciation and any allowance for impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of comprehensive income.

Fully depreciated assets are retained as property and equipment until these are no longer in use.

### Input Value-added Taxes (VAT)

Input VAT represents VAT imposed on the Group by their suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT are stated at their estimated net realizable values.



## Impairment of Assets

### *Financial Assets Carried at Amortized Cost*

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., 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 estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in the consolidated statement of comprehensive income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

With respect to receivables, the Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly. Impaired receivables are derecognized when they are assessed as uncollectible.

### *Investment in Shares of Stock*

The Group performs an impairment review on its investment in shares of stock whenever an impairment indicator exists. After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investment in its associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income.

### *Property and Equipment and Input VAT*

The carrying values of property and equipment and input VAT are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their estimated recoverable amounts. The estimated recoverable amount is the greater of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss, if any, is recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery of impairment losses is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources 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 made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

### Retirement Benefits

The Group has a defined retirement benefit plan which requires contributions to be made to separately administered fund. The cost of providing benefits under the defined retirement benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined retirement benefit liability (asset) is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### Capital Stock

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own capital stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

#### Retained Earnings

The amount included in retained earnings includes profit attributable to the Group's equity holders and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the Group's stockholders. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Foreign Currency Translation

The functional currency of the entities of the Group is the Philippine peso, except for a subsidiary of the associate, which the functional currency is the United States Dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The assets and liabilities of a subsidiary of the associate whose functional currency is other than the Philippine peso, are translated into Philippine peso at the rate of exchange ruling at the balance sheet date, and its income and expenses are translated to Philippine peso at average exchange rates. The exchange differences arising on the translation are taken directly to "Share in CTA of an associate" account, a separate component of equity.

#### Income Taxes

##### *Current Income Tax*

Current income tax assets and liabilities for the current and prior year periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### Earnings (Loss) Per Share

Earnings (loss) per share is determined by dividing net earnings (loss) by the weighted average number of shares issued during the year after retroactive adjustment for any stock dividends declared and stock split. Diluted earnings (loss) per share amounts are calculated by dividing the net earnings attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

### Operating Leases

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessor. Lease payments under an operating lease are charged to expense on a straight-line basis over the terms of the lease.

### Contingencies

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

### Events After the Balance Sheet Date

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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### 3. Significant Accounting Judgments and Estimates

The consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. 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.

#### Judgments

##### *Determining Functional Currency*

The functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

##### *Operating Leases - the Group as a Lessee*

The Group has entered into an operating lease agreement as a lessee and determined that the lessor retains all significant risks and reward of ownership of the related property (see Note 17).

#### Estimates

##### *Estimating Impairment of Trade and Other Receivables*

Management reviews the age and status of trade and other receivables and identifies accounts that are to be provided with allowances on a continuous basis. The Group maintains allowances for impairment losses at a level considered adequate to provide for potential uncollectible receivables.

The Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Factors, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered in determining the amount of impairment loss that will be recorded. The allowance is re-evaluated and adjusted as additional information is received.

Allowance for impairment losses on trade and other receivables amounted ₱3,520,453 as of December 31, 2009 and 2008. Management believes that the allowance is sufficient to cover the trade and other receivable balances which are specifically identified to be doubtful of collection. The Group also determines receivables to be written-off based on assessments and results of earnest efforts exerted by management to collect such receivables. Trade and other receivables, net of allowance for impairment losses, amounted to ₱ 8,443,967 and ₱9,600,906 as of September 30, 2010 and December 31, 2009 respectively (see Note 5).

#### *Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of these assets.

In addition, estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The net book values of property and equipment amounted to ₱ 10,602,045 and ₱12,807,262 as of September 30, 2010 and December 31, 2009 respectively (see Note 7).

#### *Estimating Realizability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduced the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Group has unused NOLCO, excess MCIT and deductible temporary differences totaling ₱27,322,977 and ₱28,005,634 as of December 31, 2009 and 2008, respectively, for which no deferred income tax assets were recognized (see Note 18).

#### *Estimating Impairment of Property and Equipment and Input VAT*

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of assets in an arms' length transaction while value in use is the present value of estimated future cash flows expected to rise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the net selling price.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. No impairment loss was recognized in 2009, 2008 and 2007. The aggregate carrying amounts of property and equipment and input VAT amounted to ₱14,730,956 and ₱251,746 as of December 31, 2009 and 2008, respectively.

#### *Estimating Impairment of Investment in Shares of Stock*

The Group performs an impairment review on its investment whenever an impairment indicator exists. After applying the equity method, the Group determines whenever it is necessary to recognize an impairment loss on the Group's investment in shares of stock. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows of the investment and to make use of a suitable discount rate to calculate the present value of those future cash flows.

Management has determined that there are no events or circumstances in 2009, 2008 and 2007 that may indicate that the carrying amount of the investment may not be recoverable. No impairment loss on investment in shares of stock was recognized for the years ended December 31, 2009, 2008 and 2007. Investment in shares of stock amounted to ₱ 24,427,069 and ₱30,221,020 as of September 30, 2010 and December 31, 2009, respectively (see Note 6).

#### *Estimating Fair Value Less Costs to Sell*

The Group estimates the fair value of assets held for sale based on the available market price of similar assets less estimated costs to sell. The carrying amount of assets held for sale amounted to ₱ 2,081,535 as of December 31, 2009 and 2008. The fair value of the assets held for sale amounted to ₱3,027,000 as of December 31, 2009 and 2008 (see Note 8).

#### *Estimating Retirement Benefits*

The determination of the Group's obligation and cost for retirement is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 16 to the consolidated financial statements. Retirement benefit expense (income) amounted to (₱34,100), ₱103,300 and ₱138,700 in 2009, 2008 and 2007, respectively. Retirement benefit obligation (asset) amounted to (₱80,100) and ₱103,300 as of December 31, 2009 and 2008, respectively (see Note 16).

#### *Estimating Contingencies*

The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

<b>4. Cash and Cash Equivalents</b>			
		<b>30-Sep-10</b>	31-Dec-09
		<b>(Unaudited)</b>	(Audited)
	Cash in banks	<b>7,298,569</b>	4,873,292
	Short-term deposits	<b>47,126,328</b>	-
		<b>54,424,897</b>	4,873,292

Cash with banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods usually up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

<b>5. Receivables</b>			
		<b>30-Sep-10</b>	31-Dec-09
		<b>(Unaudited)</b>	(Audited)
	Trade Receivables		
		Unimpaired	<b>1,093,405</b>
		Impaired	<b>784,796</b>
	Advances to officers and employees/others		
		Unimpaired	<b>7,843</b>
		Impaired	<b>1,018,363</b>
	Others		
		Unimpaired	<b>7,342,718</b>
		Impaired	<b>1,717,294</b>
			<b>11,964,420</b>
	Less allowance for impairment losses		<b>3,520,453</b>
			<b>8,443,967</b>

Trade receivables are noninterest-bearing and are generally have a 30-day term.

The allowance for impairment losses is attributable to the individual impairment of certain trade, advances to officers and employees and other receivables. The Group's management believes that unimpaired receivables are collectible and in good standing.

Total gross amounts of individually impaired receivables as of September 30, 2010 and December 31, 2009 before deducting impairment allowance amounted to ₱3,520,453. These receivables were fully provided with allowance for impairment losses as of September 30, 2010 and December 31, 2009.



As of September 30, the aging analysis of unimpaired receivables is as follows:

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Total
		Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	
30-Sep-10	1,169,043	70,177	12,843	-	7,191,904	8,443,967
31-Dec-09	2,696,267	615,921	1,613,425	699,593	3,975,700	9,600,906

## 7. Investments in Shares of Stock

Investments in ePerformax Contact Centers Corp. (ePerformax) and ePerformax International Prior to 2007, the Company has a 25% stake in ePerformax, a company engaged in the business of information technology services, including contact center operations, software development, internet access and e-commerce services, back-office processing and system integration.

### *Dividends from ePerformax*

The BOD of ePerformax approved the declaration of stock dividends to stockholders out of its unappropriated retained earnings. The Company's share in the stock dividends is as follows:

Date of declaration	Stockholders of record as of	Amount
July 9, 2007	December 21, 2006	P40, 518,868
September 21, 2007	September 21, 2007	2,324,480
July 23, 2010	July 23, 2010	2,667,000
		P45, 510,348

The Philippine SEC approved the declaration of stock dividends of ePerformax on July 9, 2007 and September 21, 2007 on July 31, 2007 and October 25, 2007, respectively.

On November 9, 2007, the BOD and stockholders of ePerformax, in a joint shareholders' and BOD's meeting, approved the substitution of payment of dividends declared on July 9, 2007, September 21, 2007, and July 23, 2010 from stock to cash. Previously, such stock dividends were used by the Company to subscribe to additional shares. Because of the substitution of dividends paid from stock to cash, there is also a need to substitute the mode of payment of the additional subscribed shares from payment by way of stock dividends to additional cash subscription by applying the cash dividends declared to the payment of said subscription. On this basis, the BOD and stockholders of ePerformax also agreed on the same meeting to convert the cash dividend liabilities into capital subscription payment.

On the basis of the approval of the BOD and stockholders of ePerformax, the Company recognized the dividends of P45,510,348 as a reduction of "Investment in shares of stock" in the consolidated balance sheets. Moreover, the company also recognized additional investment in ePerformax of P42, 843,348, representing 42,843,348 shares with a par value of P1 per share.

On November 29, 2007, the Philippine SEC approved ePerformax's petition to substitute payment of dividends. I

On September 21, 2007, the BOD of ePerformax approved the declaration of cash dividends to the stockholders of record as of September 21, 2007 out of ePerformax's unappropriated retained earnings. The Company's share in the cash dividends amounted to ₱1,901,847 and was recorded as a reduction of "Investment in shares of stock" in the 2007 consolidated balance sheet.

On September 21, 2007, the Company paid stock subscription amounting to ₱10,353,420 as additional investment in ePerformax.

*Sale of ePerformax Shares to GeBSI*

On August 31, 2007, the Company sold a portion of its shares in ePerformax to GeBSI with a cost of ₱96,034,610 for ₱70,000,000 resulting to a loss of ₱26,034,610, which is presented under "Other expenses" account in the 2007 consolidated statement of income.

*Exchange of Shares*

Prior to the exchange of shares, the Company's stake in ePerformax decreased from 25% to 4.3%.

On September 28, 2007, the Company, together with the other shareholders of ePerformax, GeBSI, Performance Consulting Group, Inc. (PCG-US) and other shareholders (collectively known as the "Transferors") entered into a Deed of Assignment with ePerformax International whereby the shares held by the Transferors in ePerformax were assigned to ePerformax International in exchange of the latter's own shares. Accordingly, ePerformax became a wholly owned subsidiary of ePerformax International and the Company and the other Transferors became shareholders of ePerformax International. The Company's effective interest in ePerformax International is 3.8%. Although the Company holds only 3.8% ownership of ePerformax International, the Company has significant influence through representation on the BOD of the investee and participation in the policy-making processes.

The Philippine SEC approved the exchange of shares on October 25, 2007.

The movements of the investment in ePerformax International in are as follows:

<b>6. Investment in Shares of stock</b>			
		<b>30-Sep-10</b>	31-Dec-09
		<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>Acquisition costs:</b>		
	Balances at beginning of period	<b>21,948,203</b>	21,948,203
	Additions		
	Disposals		
	<b>Balances at end of period</b>	<b>21,948,203</b>	21,948,203
	<b>Accumulated equity in net earnings:</b>		
	Balances at beginning of period	<b>5,107,926</b>	4,718,381
	Equity in net earnings for the period	<b>(88,226)</b>	2,442,085
	Dividend Received		(2,052,540)
	Disposals		
	<b>Balances at end of period</b>	<b>5,019,700</b>	5,107,926
	<b>Share in CTA of associate:</b>		
	Balances at beginning of period	<b>3,164,891</b>	(1,790,398)
	Additions	<b>(5,705,724)</b>	4,955,289
	Disposals		
	<b>Balances at end of period</b>	<b>(2,540,834)</b>	3,164,891
	<b>Investment in associate at equity</b>	<b>24,427,069</b>	30,221,020

The summarized financial information ePerformax International as of June 30, 2009, December 31, 2008 and 2007 as follows:

	<b>2009</b>	2008	2007
Total assets	<b>₱1,138,513,002</b>	₱1,213,410,696	₱989,799,304
Total liabilities	<b>389,949,404</b>	558,774,178	365,347,102
Net income	<b>64,265,384</b>	136,225,736	156,455,576
	<b>2009</b>	2008	2007

The undistributed earnings of ePerformax International included in the consolidated retained earnings amounted to ₱5,019,700 and ₱5,107,026 as of September 30, 2010 and December 31, 2009 respectively, which is not currently available for dividend distribution unless declared by such investee.

<b>7. Property and Equipment</b>			
<b>30-Sep-10</b>			
	<b>Furniture, Fixtures and Equipment</b>	<b>Internet Equipment</b>	<b>Total (Unaudited)</b>
<b>Cost</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>14,791,033</b>	<b>15,027,168</b>
<b>Additions</b>	-	-	-
<b>Disposals</b>	-	-	-
<b>Ending Balance</b>	<b>236,135</b>	<b>14,791,033</b>	<b>15,027,168</b>
<b>Accumulated depreciation and amortization</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>1,983,771</b>	<b>2,219,906</b>
<b>Depreciation</b>		<b>2,205,217</b>	<b>2,205,217</b>
<b>Disposals</b>			-
<b>Ending Balance</b>	<b>236,135</b>	<b>4,188,988</b>	<b>4,425,123</b>
<b>Net book values</b>	-	<b>10,602,045</b>	<b>10,602,045</b>
<b>2009</b>			
	<b>Furniture, Fixtures and Equipment</b>	<b>Internet Equipment</b>	<b>Total (Audited)</b>
<b>Cost</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>707,812</b>	<b>943,947</b>
<b>Additions</b>	-	<b>14,083,221</b>	<b>14,083,221</b>
<b>Disposals</b>	-		-
<b>Ending Balance</b>	<b>236,135</b>	<b>14,791,033</b>	<b>15,027,168</b>
<b>Accumulated depreciation and amortization</b>			
<b>Beginning Balance</b>	<b>236,135</b>	<b>456,066</b>	<b>692,201</b>
<b>Depreciation</b>	-	<b>1,527,705</b>	<b>1,527,705</b>
<b>Disposals</b>			-
<b>Ending Balance</b>	<b>236,135</b>	<b>1,983,771</b>	<b>2,219,906</b>
<b>Net book values</b>	-	<b>12,807,262</b>	<b>12,807,262</b>

## **8. Assets Held for Sale**

Assets held for sale represent the carrying amount, which is lower than the fair value less costs to sell, of land and condominium units included in the paging business of the Company. As discussed in Note 1, the Company's paging business discontinued its commercial operations in 2002.

A portion of land and the condominium units were disposed in 2005 through sale transaction. The remaining piece of land is expected to be disposed through a sale transaction in 2010. Management continues to commit itself to pursue its plan to sell the remaining piece of land given the extension of the period to complete the sale (see Note 3).

<b>9. Accounts payable and accrued expenses</b>			
		<b>30-Sep-10</b>	31-Dec-09
		<b>(Unaudited)</b>	(Audited)
	Trade	<b>803,439</b>	1,763,935
	Due to affiliates (see	<b>318,120</b>	317,939
	Accrued expenses	<b>1,073,838</b>	947,484
	Others	<b>233,294</b>	351,594
		<b>2,428,692</b>	3,380,952

Accrued expenses consist mainly of accrual for professional fees, direct costs and fees and dues, among others.

Other payables consist mainly of deferred output VAT, amounts due to Social Security System and Home Development Mutual Fund, among others.

#### **10. Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

In addition to those mentioned in Notes 1 and 6, related party transactions in the ordinary course of business are as follows:

- The following intercompany balances represent non-interest bearing cash advances for working capital requirements which are due and demandable:

<b>10. Related Party Transactions</b>						
			<b>Due to affiliates</b>		<b>Advances from Stockholders</b>	
			<b>30-Jun-10</b>	31-Dec-09	<b>30-Jun-10</b>	31-Dec-09
			<b>(Unaudited)</b>	(Audited)	<b>(Unaudited)</b>	(Audited)
		<b>TESI (see note 9)</b>	<b>318,120</b>	317,939		
		<b>GEBSI (see note 1)</b>		-	<b>19,392,332.00</b>	22,392,332.00
			<b>318,120</b>	317,939	<b>19,392,332.00</b>	22,392,332.00

In 2009, advances from a stockholder amounting to ₱11,500,000 was applied against the exercise of stock rights (see Note 11).

There have been no guarantees provided or received for any related party receivables or payables.

- b. In 2007, the Group reimbursed Transnational Diversified Group, Inc., for the Group's share in the expenses incurred by the Corporate Centers such as legal, internal audit, corporate planning and other corporate costs amounting to ₱1,200,000 (see Note 13).
- c. Compensation of key management personnel of the Group (see Notes 15 and 16).
- d. Participation by the Group in the Transnational Diversified Group of Companies Retirement Plan (the Group Plan; see Note 16).

## 11. Capital Stock

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The BOD approved the maintenance of the 42,557,170 (net of 26,113 exercised in 2005) warrants issued to the stockholders. The exercise price of the warrant is ₱1.15 per share. A warrant represents an entitlement to subscribe and be allotted one (1) common share. The warrants shall be the direct obligations of the Group to the registered owners of the warrants, subject to the terms and conditions of the warrant certificate. There were no warrants exercised in 2009 and 2008.

On September 11, 2008, the BOD approved the issuance of 11,500,000 stock rights to all stockholders of record as of January 8, 2009 at an offer price of ₱1.00 per share. Each shareholder shall be given one share of the Company for every 8 shares currently held by them. The proceeds will be utilized to fund the expansion and enhancement of the Company's delivery of its IP based internet products and services.

The issuance of the stock rights offer was approved by the Philippine SEC on December 23, 2008.

Effective January 23, 2009, 11,500,000 stock rights were exercised by the stockholders at ₱1.00 per share or for a total par value of ₱11,500,000 (see Note 10).

The increase in capital stock was from additional investment of Global E Business Solutions Inc. amounting to P46, 570,025.00 or equivalent to 46,570,025 shares at a par value of P1.00 per share on April 23, 2010.

11				
<b>Capital Stock</b>				
			<b>30-Sep-10</b>	31-Dec-09
			<b>(Unaudited)</b>	<b>(Audited)</b>
	Capital Stock- P1 par value (See Note 1)			
	Authorized- 300 million shares			
	Issued- 150,000,000 shares			
			<b>150,000,000</b>	103,429,975

<b>12. General and Administrative Expenses</b>		<b>Quarter September 30</b>	
	<b>2010</b>	<b>2009</b>	
	<b>(Unaudited)</b>	<b>(Audited)</b>	
Employee Related (see Note 15)	<b>1,673,813</b>	1,669,792	
Management and Consultancy Fees	<b>1,054,719</b>	990,100	
Communications	<b>376,104</b>	449,708	
Taxes and licenses	<b>406,385</b>	564,114	
Professional Fees	<b>234,783</b>	319,475	
Travel	<b>455,046</b>	204,576	
Depreciation (see Note 7)	<b>84,179</b>	55,650	
Rental (see Note 17)	<b>249,090</b>	245,910	
Repairs and maintenance	<b>47,774</b>	49,590	
Miscellaneous - net	<b>1,226,147</b>	1,950,017	
	<b>5,808,040</b>	6,498,930	

Miscellaneous expenses include membership fees, insurance and bond premium and other expenses.

<b>13. Other Income</b>		<b>Quarter September 30</b>	
	<b>2010</b>	<b>2009</b>	
	<b>(Unaudited)</b>	<b>(Audited)</b>	
Interest income	<b>22,680</b>	116,255	
Miscellaneous (see Note 15)	<b>845,024</b>	389,657	
Dividend Income	<b>2,667,000</b>		
	<b>3,534,703</b>	505,912	

<b>14. Employee-related Expenses</b>		<b>Quarter September 30</b>	
	<b>2010</b>	<b>2009</b>	
	<b>(Unaudited)</b>	<b>(Audited)</b>	
Salaries and wages	<b>1,136,836</b>	1,482,417	
Employees' benefits	<b>536,978</b>	187,375	
Retirement benefits	-		
	<b>1,673,813</b>	1,669,792	

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## 15. Retirement Benefit Plan

The Group participates in the Group Plan, which is managed by a Board of Trustees and is funded by contributions of each participating company. The fund assets of each participating company are determined on the basis of each company's contribution to the Group Plan. The annual contribution to be paid to the Group Plan is based on the unfunded actuarial liability computed individually for each participating company.

The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees.

The following tables summarize the amounts recognized in the consolidated balance sheets, the components of net retirement benefit expense (income) recognized in the consolidated statements of comprehensive income and the funded status, based on the latest actuarial valuation as of December 31, 2009.

The components of retirement benefit expense (income) recognized in the consolidated statements of comprehensive income are as follows:

	2009	2008	2007
Current service cost	<b>₱2,900</b>	₱120,500	₱133,100
Interest cost	<b>2,300</b>	29,800	11,300
Actuarial gains	<b>(21,700)</b>	(1,000)	(5,700)
Expected return on plan assets	<b>(17,600)</b>	(46,000)	–
Retirement benefit expense (income)	<b>(₱34,100)</b>	₱103,300	₱138,700
Actual return (loss) on plan assets	<b>₱36,247</b>	(₱65,613)	₱15,900

The retirement benefit income is presented under "Other income" account in the 2009 consolidated statement of comprehensive income (see Note 14).

The components of retirement benefit obligation (asset) recognized in the consolidated balance sheets are as follows:

	2009	2008
Present value of defined benefit obligation	<b>₱121,200</b>	₱8,137
Fair value of plan assets	<b>(537,934)</b>	(352,387)
Funded status	<b>(416,734)</b>	(344,250)
Unrecognized actuarial gains	<b>336,634</b>	447,550
Retirement benefit obligation (asset)	<b>(₱80,100)</b>	₱103,300



Changes in the present value of the defined benefit obligation are as follows:

	2009	2008
Balances at beginning of year	<b>₱8,137</b>	₱357,100
Current service cost	<b>2,900</b>	120,500
Interest cost	<b>2,300</b>	29,800
Net actuarial losses (gains) due to:		
Change in actuarial assumptions	<b>108,500</b>	(375,463)
Experience adjustments	<b>(637)</b>	(123,800)
Balances at end of year	<b>₱121,200</b>	₱8,137

Changes in the fair value of plan assets are as follows:

	2009	2008
Balances at beginning of year	<b>₱352,387</b>	₱418,000
Expected return on plan assets	<b>17,600</b>	46,000
Contributions	<b>149,300</b>	–
Actuarial gains (losses)	<b>18,647</b>	(111,613)
Balances at end of year	<b>₱537,934</b>	₱352,387

The Group does not expect to contribute to the Group Plan in 2010.

The major categories of the Group Plan's plan assets as a percentage of the fair value of the total plan assets are as follows:

	2009	2008
Cash and cash equivalents	<b>36%</b>	31%
FVPL investments	<b>10%</b>	8%
Investment in shares of stock	<b>3%</b>	5%
Others	<b>51%</b>	56%

Principal actuarial assumptions used to determine retirement benefit obligation (asset) in 2009 and 2008 are as follows:

	2009	2008
Discount rate	<b>10.80%</b>	28.86%
Investment yield	<b>5.00%</b>	5.00%
Retirement date	<b>Age 60 and 10 years of service</b>	Age 60 and 10 years of service
Wages and salary increases		
Rank and file and non-managers	<b>5.00%</b>	10.00%
Managers and up	<b>1.00%</b>	1.00%
Turnover rate (voluntary separation)	<b>Ranging from 10% at age 20 and decreasing to 0% after age 45</b>	Ranging from 10% at age 20 and decreasing to 0% after age 45

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.

Amounts for the current and previous three years are as follows:

	2009	2008	2007	2006
Fair value of plan assets	<b>₱537,934</b>	₱352,387	₱418,000	₱–
Present value of defined benefit obligation	<b>121,200</b>	8,137	357,100	141,330
Funded status	<b>416,734</b>	344,250	60,900	(141,330)
Experience adjustments on plan liabilities	<b>(637)</b>	(123,800)	97,900	(201,400)

## 16. Operating Leases

The Group subleases its warehouse space from Diversified Holdings, Inc. The sublease agreement is renewable on a year-to-year basis. Rent charged to operations for each of the three years in the period ended December 31, 2009 amounted to ₱49,370, ₱54,153, and ₱127,724, respectively (see Note 13).

## 17. Income Taxes

In 2009 and 2008, the provision for current income tax represents the Company's MCIT and e-Serve's regular corporate income tax.

The Company had no provision for current income tax in 2007 due to its gross and net taxable loss positions. The provision for current income tax in 2007 represents e-Serve's MCIT.

In 2009, e-Serve recognized deferred income tax liability on retirement benefit asset amounting to ₱24,030.

As of December 31, 2009 and 2008, the Group has the following deductible temporary differences, excess MCIT and unused NOLCO for which no deferred income tax assets were recognized since management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized in the future:

	2009	2008
NOLCO	<b>₱23,740,878</b>	₱24,329,256
Allowance for impairment losses	<b>3,520,453</b>	3,520,453
MCIT	<b>61,646</b>	52,625
Retirement benefit obligation	–	103,300
	<b>₱27,322,977</b>	₱28,005,634

As of December 31, 2009, the Group has NOLCO and MCIT that can be claimed against future taxable income and income tax liabilities, respectively, as follows:

Year incurred	Available up to	NOLCO	MCIT
2009	2012	₱–	₱40,863
2008	2011	447,870	20,783
2007	2010	23,293,008	–
		<b>₱23,740,878</b>	<b>₱61,646</b>

The following are the movements in NOLCO and MCIT:

NOLCO	2009	2008
Balances at beginning of year	<b>₱24,329,256</b>	₱28,590,547
Additions	–	447,870
Expirations	<b>(270,105)</b>	(4,709,161)
Application	<b>(318,273)</b>	–
Balances at end of year	<b>₱23,740,878</b>	₱24,329,256

MCIT	2009	2008
Balances at beginning of year	<b>₱52,625</b>	₱654,590
Additions	<b>40,863</b>	20,783
Expirations	<b>(9,106)</b>	(486,173)
Applications	<b>(22,736)</b>	(136,575)
Balances at end of year	<b>₱61,646</b>	₱52,625

The reconciliation of income (loss) before income tax computed at the statutory tax rate to provision for income tax are as follows:

	2009	2008	2007
Tax at statutory rates	<b>₱1,040,737</b>	₱1,992,669	(₱2,875,242)
Additions to (reductions in) income taxes resulting from:			
Nondeductible expenses	<b>240,254</b>	–	–
Equity in net earnings of associates	<b>(732,626)</b>	(1,811,802)	(14,004,461)
Change in unrecognized deferred income taxes	<b>(108,345)</b>	77,116	7,875,723
Interest income subjected to final tax and others	<b>(41,655)</b>	(237,200)	(126,992)
Loss on sale of asset subjected to capital gains tax	–	–	9,290,283
	<b>₱398,365</b>	₱20,783	₱159,311

### Republic Act (RA) No. 9337

RA No. 9337, which became effective on November 1, 2005, amended various provisions in the 1997 National Internal Revenue Code. The reforms introduced by RA No. 9337 included the increase in the corporate income tax rate from 32% to 35% beginning November 1, 2005, with a reduction thereof to 30% beginning January 1, 2009. RA No. 9337 also provided for the increase in unallowable interest rate from 38% to 42% beginning November 1, 2005, with a reduction thereof to 33% beginning January 1, 2009.

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## **18. Earnings (Loss) Per Share**

The following reflects the consolidated net income (loss) and share data used in the basic and diluted earnings (loss) per share computations:

Basic earnings (loss) per share:

	2009	2008	2007
Net income (loss)	<b>₱3,070,757</b>	₱5,672,556	(₱8,374,289)
Divided by weighted average number of outstanding shares	<b>102,471,642</b>	91,929,975	91,929,975
Basic earnings (loss) per share	<b>₱0.03</b>	₱0.06	(₱0.09)

Diluted earnings (loss) per share:

	2009	2008	2007
Net income (loss)	<b>₱3,070,757</b>	₱5,672,556	(₱8,374,289)
Weighted average number of ordinary shares for basic earnings per share	<b>102,471,642</b>	91,929,975	91,929,975
Effect of dilution:			
Exercisable warrants (see Note 11)	<b>42,557,170</b>	42,557,170	–
	<b>145,028,812</b>	134,487,145	91,929,975
Diluted earnings (loss) per share	<b>₱0.02</b>	₱0.04	(₱0.09)

Exercisable warrants were not included in the diluted loss per share in 2007 since they had anti-dilutive effect.

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## **19. Registration with the Board of Investments (BOI)**

The Company is registered with the BOI on December 12, 2001 as a New IT Service Firm in the field of Electronic Customer Relationship Management on a pioneer status under the Omnibus Investment Code of 1987. Under the terms of the Company's registration, it is entitled to certain tax and non-tax incentives which include income tax holiday for six years subject to certain conditions, among others, and is required to maintain a base equity of at least 25%. The BOI registration of the Company expired on December 12, 2007.

There was no income tax holiday incentive availed for the period from January 1, 2007 to December 12, 2007 as the Company has no operations for the registered activity.

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## 20. Financial Instruments

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### Financial Risk Management Objectives and Policies

The Group's financial instruments are cash and cash equivalents, trade and other receivables, trade and other payables and advances from a stockholder.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to liquidity risk and credit risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks.

### *Liquidity Risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objectives to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Group's credit standing.

The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows.

The tables summarize the remaining contractual undiscounted cash flows, by maturity, of the Group's financial liabilities:

	Due and demandable	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 Months	Total
	<b>₱</b>					<b>₱</b>
<b>2009</b>	<b>25,773,284</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>25,773,284</b>
2008	32,842,375	4,826,532	193,043	-	-	37,861,950

### *Credit Risk*

Credit risk represents the loss that the Group would incur if a counterparty failed to perform under its contractual obligations and arises primarily from the Group's receivables. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. The Group's maximum exposure to credit risk is the carrying amount of its financial assets.

The Group grants advances to its affiliates after the BOD reassessed the Group's strategies for managing credits and view that they remain appropriate for the Group's circumstances. In addition, these advances are monitored on an ongoing basis with the result that the Group's exposure to account discrepancies is not significant.

Cash equivalents are money market placements made with reputable banks duly approved by BOD. All unimpaired receivables are collectible and in good standing. Management believes that all financial assets are of good credit quality.

#### Fair Values of Financial Instruments

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and advances from a stockholder approximate their fair values due to their short-term maturities.

The carrying values of the Group's financial assets and liabilities per category are as follows:

	<b>2009</b>	2008
Loans and receivables:		
Cash and cash equivalents	<u>₱4,873,292</u>	<u>₱18,259,361</u>
Trade and other receivables	<b>9,600,906</b>	8,303,239
	<b>₱14,474,198</b>	₱26,562,600
Other financial liabilities:		
Trade and other payables	<u>₱3,380,952</u>	<u>₱5,019,575</u>
Advances from a stockholder	<u>22,392,332</u>	<u>32,842,375</u>
	<b>₱25,773,284</b>	₱37,861,950

#### Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as of December 31, 2009 and 2008.

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#### **21. Notes to Consolidated Statements of Cash Flows**

Noncash financing activity in 2009 pertains to the exercise of 11,500,000 stock rights by the stockholders at ₱1 per share or for a total par value of ₱11,500,000 which was applied against advances from a stockholder (see Notes 10 and 11).

Noncash financing activity in 2008 pertains to the reversal of deposits for future stock subscriptions to advances from a stockholder amounting to ₱19,310,284 (see Note 10).

Noncash investing activity in 2007 pertains to dividend income and acquisition of investment in shares of stock from/to ePerformax amounting to ₱45,510,348 (see Note 7).

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## **22. Other Matter**

In relation to the Group's paging operations, National Telecommunications Commission (NTC) billed the Group Supervision and Regulation Fees (SRF) amounting to ₱14,049,360 for the years covering 2001 to 2005. With the closure of the Group's paging operations in 2002, management believes that the Group has no telecommunications operations subject to supervision by NTC and thus, no SRF should be charged to the Group. Management has already sent formal communications to NTC regarding the matter; however, the Group did not receive a formal reply from NTC. Management at that time believed that the Group has substantial factual bases for its position, thus, no provisions were recognized for the SRF in previous years.

In line with the Group's future plans to revive its business operations by providing value-added services to telecommunication companies and to introduce the two way paging system, the Group arranged for a settlement of the SRF billed by NTC in December 2007 which was reflected under "Other expenses" account in the 2007 consolidated statement of comprehensive income.