



2<sup>nd</sup> Floor, Mary Bachrach Building  
cor. 25<sup>th</sup> and AC Delgado Sts., Port Area, Manila  
632.754-8688 (T)  
632.754-8688 2.1(F)

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November 13, 2014

**PHILIPPINE STOCK EXCHANGE INC.**

3rd Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

**Attention: Ms. Janet A. Encarnacion**  
Head, Disclosure Department

**Dear Ms. Encarnacion,**

In compliance with Securities Regulation Code Rule 17 and 68.1, we submit herewith copy of the 3rd Quarter Report for the period ended September 30, 2014 (SEC Form 17-Q).

We hope that you will find everything in order.

Very truly yours,

A handwritten signature in blue ink, appearing to read "RV Martinez", with a long vertical flourish extending downwards.

**RENATO VICENTE R. MARTINEZ**  
General Manager

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, 2014**

Period Ended Date

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(Secondary License Type and File Number)

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# 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, 2014**
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 stock issued and subscribed	Number of shares of common
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<b>Common Shares</b>	<b>150,000,000 shares</b>
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**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.**

#### **REVENUES**

During the third quarter of 2014, the Company's consolidated service income is ₱6.96 million, which is 8% higher than the same period last year in the amount of ₱6.46 million. The Company generated ₱1.22 million in gross revenues from its own operations, and ₱5.74 million in gross revenues from its subsidiary, ESERVE.

#### **COST AND EXPENSES**

The Company's consolidated Direct Costs (i.e., cost of leased line subscriptions) decreased by 6% from ₱3.84 million for the third quarter of 2013 to ₱3.61 million for the third quarter of 2014. General and administrative expenses decreased by 14% this quarter at ₱1.97 million as compared to ₱2.29 million for the same period last year.

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

Based on the Company's 3.8% interest in EPMAX, the Company recognized an equity in net earnings of ₱1.66 million for the third quarter of 2014 which is 114% higher than the equity in net earnings for the same period last year in the amount of ₱0.78 million.

#### **OTHER INCOME**

During the third quarter of this year, the Company recognized consolidated other income in the amount of ₱.007 million, which is 100% lower compared to last year's other income of ₱2.07 million.

#### **CASH AND CASH EQUIVALENTS**

As of September 30, 2014, the consolidated cash and cash equivalents amounted to ₱53.07 million, which is 20% lower than ₱66.28 million as of December 31, 2013. The decrease was due to the payment of advances made by the Company to its major stockholder, TDG Ventures, Inc. (formerly Global E-Business Solutions, Inc.)

#### **RECEIVABLES**

As of September 30, 2014, the consolidated trade and other receivables amounted to ₱16.94 million, which increased by 23% compared to the balance as of December 31, 2013 in the amount of ₱13.78 million.

## PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of September 30, 2014, the consolidated prepaid expenses and other current assets amounted to ₱1.26 million which increased by 83% from ₱0.69 million as of December 31, 2013.

## INVESTMENTS IN SHARES OF STOCK

As of September 30, 2014, the investments in shares of stock amounted to ₱33.84 million, 3% lower than the balance as of December 31, 2013 amounting to ₱34.88 million.

## PROPERTY AND EQUIPMENT

The net book value of the consolidated property, plant and equipment decreased by 74% from ₱2.11 million as of December 31, 2013 to ₱.56 million as of September 30, 2014.

## CURRENT LIABILITIES

The total consolidated current liabilities decreased by 86% from ₱23.84 million as of December 31, 2013 to ₱3.27 million as of September 30, 2014.

## SHARE IN CUMULATIVE TRANSLATION ADJUSTMENT

The share in Cumulative Translation Adjustment represents the changes in the cumulative translation adjustments in the books of EPMAX, wherein the Company has a 3.8% share in equity ownership.

The financial performance using key financial ratios are shown as follows:

	ECPI		ESERVE		EPMAX	
	Year-to-date Sept 30, 2014	One Year Ended December 31, 2013	Year-to- date Sept 30, 2014	One Year Ended December 31, 2013	Year-to- date Sept 30, 2014	One Year Ended December 31, 2013
Current Ratio <sup>1</sup>	4.92	3.71	1.95	1.20	3.03	3.04
Debt to Equity Ratio <sup>2</sup>	0.18	0.25	0.95	2.83	0.31	0.30
Asset to Equity <sup>3</sup>	1.18	1.25	1.95	3.83	1.31	1.30
Interest Rate Coverage Ratio <sup>4</sup>	N/A	N/A	N/A	N/A	253	214
Gross Margin <sup>5</sup> (in thousand pesos '000)	2,183	2,151	7,315	7,241	445,839	280,104
Gross Profit Rate <sup>6</sup>	59.61%	40.21%	41.36%	38.26%	22.42%	10.99%
Percentage of Operating Expenses to Sales <sup>7</sup>	48.10%	51.47%	23.94%	32.82%	17.69%	5.29%
Net Profit Ratio <sup>8</sup>	181.52%	101.35%	16.49%	3.87%	4.72%	7.42%

<sup>1</sup>The current ratio is calculated by dividing current assets including noncurrent assets classified as held for sale by the current liabilities.

<sup>2</sup>The debt to equity ratio is computed by dividing the total liabilities by the total equity.

<sup>3</sup> The asset to equity ratio is calculated by dividing the total assets by the total equity.

<sup>4</sup> The interest rate coverage ratio is computed by dividing earnings before interest and taxes by the interest expense.

<sup>5</sup>Gross margins are service revenues less cost of services (in thousand pesos '000).

<sup>6</sup>Gross profit rate is arrived at by dividing the gross margin amount computed above by the total service revenues.

<sup>7</sup>Percentage of operating expense to sales is computed by dividing the total general and administrative expenses by the service revenues.

<sup>8</sup>The net profit ratio is the outcome of dividing the net income over total sales.

***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, events or uncertainties that will have an impact on the Company'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 Company'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. NIRO**  
President

Date: November 11, 2014

  
**JOSE ENRIQUE C. SANTIAGO**  
Treasurer

Date: November 11, 2014

  
**RENATO VICENTE R. MARTINEZ**  
General Manager

Date: November 11, 2014



Easycall Communications Philippines, Inc.  
and Subsidiary

Consolidated Financial Statements  
As of September 30, 2014 and December 31, 2013,  
For the Quarter Ended September 30, 2014,  
And Quarter Ended September 30, 2013

**EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

	Sept 30, 2014 (Unaudited)	Dec. 31, 2013 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱53,071,248	₱66,275,403
Trade and other receivables - net (Note 5)	16,936,834	13,776,642
Deferred tax asset (Note 17)	-	-
Prepaid expenses and other current assets	1,255,504	687,798
<b>Total Current Assets</b>	<b>71,263,586</b>	<b>80,739,843</b>
<b>Noncurrent Assets</b>		
Investment in shares of stock (Note 6)	33,838,734	34,883,943
Property and equipment - net (Note 7)	555,920	2,110,277
Investment properties (Note 9)	2,081,535	2,081,535
Retirement benefit asset (Note 16)	524,468	524,468
Input value-added tax (VAT)	2,001,974	1,980,500
Other noncurrent assets	450,000	450,000
<b>Total Noncurrent Assets</b>	<b>39,452,631</b>	<b>42,030,723</b>
<b>TOTAL ASSETS</b>	<b>₱110,716,217</b>	<b>₱122,770,566</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 10)	₱3,269,909	₱4,533,181
Advances from a stockholder (Notes 1 and 11)	-	19,310,284
Income tax payable	-	-
<b>Total Current Liabilities</b>	<b>3,269,909</b>	<b>23,843,465</b>
<b>Noncurrent Liability</b>		
Deferred income tax liability (Note 17)	160,639	160,639
<b>Total Liabilities</b>	<b>3,430,548</b>	<b>24,004,104</b>
<b>Equity</b>		
Capital stock - ₱1 par value (Notes 1 and 12)		
Authorized - 300,000,000 shares		
Issued - 150,000,000 shares	150,000,000	150,000,000
Share in cumulative translation adjustments (CTA) of an associate (Note 6)	517,668	(990,005)
Deficit (Note 1)	(43,231,999)	(50,243,533)
<b>Total Equity</b>	<b>107,285,669</b>	<b>98,766,462</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱110,716,217</b>	<b>₱122,770,566</b>

*See accompanying Notes to Consolidated Financial Statements.*

**EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Quarter Ended Sept		Year to Date	
	2014	2013	Jan-Sept 2014	Jan-Sept 2013
<b>SERVICE INCOME</b>	<b>₱6,959,432</b>	₱6,459,118	<b>₱21,349,440</b>	₱17,650,415
<b>COSTS OF SERVICES</b>	<b>(3,612,512)</b>	(3,839,736)	<b>(11,850,715)</b>	(10,437,002)
<b>GROSS PROFIT</b>	<b>3,346,920</b>	2,619,382	<b>9,498,725</b>	7,213,413
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>(1,968,786)</b>	(2,290,401)	<b>(5,995,672)</b>	(5,383,550)
<b>EQUITY IN NET EARNINGS OF AN ASSOCIATE</b>	<b>1,659,675</b>	776,044	<b>3,543,120</b>	4,084,970
<b>OTHER INCOME</b>	<b>7,019</b>	2,072,240	<b>133,552</b>	2,639,400
<b>FOREIGN EXCHANGE LOSS</b>	<b>-</b>	-	<b>-</b>	-
<b>INCOME BEFORE INCOME TAX</b>	<b>3,044,828</b>	3,177,265	<b>7,179,725</b>	8,554,233
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>				
Current	-	-	<b>168,192</b>	192,738
	<b>-</b>	-	<b>168,192</b>	192,738
<b>NET INCOME</b>	<b>3,044,828</b>	3,177,265	<b>7,011,533</b>	8,361,495
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Share in CTA of an associate	<b>(701,076)</b>	2,153,084	<b>517,668</b>	1,513,326
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱2,343,752</b>	₱5,330,349	<b>₱7,529,201</b>	₱9,874,821
<b>Basic Earnings Per Share</b>	<b>₱0.02</b>	₱0.02	<b>₱0.05</b>	₱0.06
<b>Diluted Earnings Per Share</b>	<b>₱0.02</b>	₱0.02	<b>₱0.04</b>	₱0.04

*See accompanying Notes to Consolidated Financial Statements.*

**EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2014 AND 2013**

	For the Period Ended Sept 30, 2014			Total
	Capital Stock (Note 12)	Share in CTA of an Associate (Note 6)	Deficit (Note 1)	
<b>Balances at January 1, 2014</b>	<b>₱150,000,000</b>	<b>(₱990,005)</b>	<b>(₱50,243,533)</b>	<b>₱98,766,462</b>
Share in CTA of an associate (Note 6)	–	1,507,674	–	1,507,674
Net income for the period	–	–	7,011,533	7,011,533
<b>Total comprehensive income for the year</b>	–	1,507,674	7,011,533	8,519,206
<b>Balances at Sept 30, 2014</b>	<b>₱150,000,000</b>	<b>₱517,669</b>	<b>(₱43,232,000)</b>	<b>₱107,285,669</b>

	For the Period Ended September 30, 2013			Total
	Capital Stock (Note 12)	Share in CTA of an Associate (Note 6)	Deficit (Note 1)	
Balances at January 1, 2013	₱150,000,000	₱1,856,623	(₱58,388,639)	₱93,467,984
Share in CTA of an associate (Note 6)	–	(343,297)	–	(343,297)
Net income for the year	–	–	8,361,496	8,361,496
Total comprehensive income (loss) for the year	–	(343,297)	8,361,496	8,018,199
Balances at Sept 30, 2013	₱150,000,000	₱1,513,326	(₱50,027,143)	₱101,486,183

*See accompanying Notes to Consolidated Financial Statements.*

**EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Period Ended Sept 30</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱7,011,533</b>	₱8,361,496
Adjustments for:		
Depreciation (Note 7)	<b>1,655,024</b>	2,469,334
Dividend Income	-	(1,905,000)
Interest income (Notes 4)	<b>(133,552)</b>	(4,084,970)
Equity in net earnings of an associate (Note 6)	<b>(3,543,120)</b>	(734,400)
Operating income before working capital changes	<b>4,989,885</b>	4,106,460
Increase (decrease) in:		
Trade and other receivables (Note 5)	<b>(3,160,192)</b>	(1,475,144)
Prepaid expenses and other current assets	<b>(567,704)</b>	(456,385)
Retirement benefit asset (Note 16)	-	-
Increase (decrease) in:		
Trade and other payables (Note 10)	<b>(1,263,270)</b>	(26,517)
Advances from stockholders	<b>(19,310,284)</b>	-
Net cash from (used in) operations	<b>(19,311,565)</b>	2,148,414
Interest received	<b>133,552</b>	734,400
Net cash flows from operating activities	<b>(19,178,013)</b>	2,882,814
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividends received	<b>6,096,000</b>	1,905,000
Additions to property and equipment (Notes 7)	<b>(100,667)</b>	309
Decrease in Input Vat	<b>(21,475)</b>	(267,453)
Net cash flows from (used in) investing activities	<b>5,973,858</b>	1,637,856
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>(13,204,155)</b>	4,520,670
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)</b>		
	<b>66,275,403</b>	61,617,026
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>		
	<b>₱53,071,248</b>	₱66,137,696

*See accompanying Notes to Consolidated Financial Statements.*

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

## **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 into the contact center outsourcing business and information technology related business. The operations of these businesses are carried out by the Company, its wholly-owned subsidiary, Easycall e-Services, Inc. (e-Serve), a company engaged in information technology services and its associate ePerformax International, Inc. (ePI), a company engaged in contact center outsourcing business.

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

Global e-Business Solutions, Inc. (GeBSI), a company organized in the Philippines, owns 67% interest in the Company. 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 BOD 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 related parties;
- 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 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 12). As of September 30, 2014, there is no new development on the planned merger.

In 2008, the Company applied for a Certificate of Public Convenience Necessity for a nationwide wireless data network. To fund the initial start up of the Company's venture into wireless broadband and more value added internet services, the Company successfully conducted a stock rights offer of 8:1 to raise ₱11,500,000.

On April 14, 2010, the PSE approved the application of the Company to list additional 46,570,025 common shares with a par value of ₱1.00 per share to cover the private placement by GeBSI at a subscription price at par ₱46,570,025 (see Note 12).

As of September 30, 2014, the Company complied with the minimum public float requirement of the local regulators following the divestment of a portion of the shares owned by GeBSI. GeBSI sold 8 million common shares to the public through its designated stock broker, APEX (Philippines) Equities Corporation, raising the Company's public float to 10.06 %.

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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the BOD on March 26, 2014.

#### Segment Information

The Group has information technology services and contact center outsourcing business segments in September 2014, 2013, and 2012. The financial position and results of the information technology services and contact center outsourcing business segments are reflected in the consolidated financial statements (see Note 19).

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

#### Basis of Preparation

The 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. All amounts are rounded to the nearest ₱ except when otherwise stated.

#### 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 wholly-owned subsidiary.

A subsidiary is an entity in which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and

has the ability to affect the returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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 new, amended and revised standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC). Except for the adoption of Revised PAS 19, the following new, amended and revised standards and interpretations did not have any significant impact on the consolidated financial statements:

#### *PFRS 1 (Amendments), First-time Adoption of Philippine Financial Reporting Standards- Government Loans*

The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans.

#### *PFRS 7(Amendments), Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities*

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

- a. The gross amounts of those recognized financial assets and recognized financial liabilities;
- b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c. The net amounts presented in the statement of financial position;



- d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognize financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

#### *PFRS 10, Consolidated Financial Statements*

PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation – Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

#### *PFRS 11, Joint Arrangements*

PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

#### *PFRS 12, Disclosure of Interests in Other Entities*

PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

#### *PFRS 13, Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance of PFRS 13, the Group re-assessed its policies for measuring fair values for disclosure purposes. The Group has assessed that the application of PFRS 13 has not materially impacted its fair value measurements.

#### *PAS 1(Amendments), Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

The amendments to PAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

#### *PAS 19 (Revised), Employee Benefits*

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately as an expense in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses at the end of the

previous period exceeded 10% of the higher of the defined benefit obligation and fair value of plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs, if any, in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concepts of net interest on net defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdraw or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact on the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adopting the Revised PAS 19 on the consolidated financial statements are as follows:

	December 31, 2012	January 1, 2012	January 1, 2011
Increase (decrease) in:			
<u>Consolidated balance sheets</u>			
Retirement benefit asset	P-233,499	P-82,860	P-270,617
Deferred income tax liabilities	70,050	24,858	81,185
Retained earnings	163,449	58,002	189,432

	For the Years Ended December 31	
	2012	2011
Increase (decrease) in:		
Consolidated statements of comprehensive Income		
General and administrative expenses	(P-100,040)	P-10,336
Income before income tax	100,040	(10,336)
Provision for income tax	30,012	(3,101)
Net income	70,028	(7,235)
Other comprehensive income	35,419	(124,195)

Retirement benefit expense is presented under "Employee-related expenses" account in the "General and administrative expenses" section in the consolidated statement of comprehensive income.

The adoption of Revised PAS 19 did not have an impact on the consolidated statements of cash flows.

PAS 27 (Revised), *Separate Financial Statements*

As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associated in the separate financial statements.

#### PAS 28 (Revised), *Investments in Associates and Joint Ventures*

As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28, *Investment in Associates*, has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

#### Philippines Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface of mining activity, during the production phase of the time. The interpretation addresses the accounting for the benefit from the stripping activity.

#### *Improvements to PFRS (2009-2011 cycle)*

The Annual Improvements to PFRSs contain non-urgent but necessary amendments to PFRSs.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards –Borrowing Costs*
- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*
- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*
- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*
- PAS 34, *Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

#### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

As of September 30, 2014 and December 31, 2013, the Group has no assets or liabilities that are measured at fair value on a recurring basis.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

#### Financial Instruments

Financial instruments are recognized in the consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial instruments 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 instruments 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 instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments 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 September 30, 2014 and December 31, 2013, the Group has no outstanding financial assets at FVPL, HTM investments and AFS financial assets. Also, under PAS 39, financial liabilities are classified as financial liabilities at FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities. The Group has no outstanding financial liabilities at FVPL as of September 30, 2014 and December 31, 2013.

#### *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. 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 integral part of the effective interest rate. The amortization, if any, is included "Interest income" account in profit or loss. The losses arising from impairment of loans and receivables are recognized in profit or loss. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts.

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. Otherwise, these are classified as noncurrent assets.

#### *Other Financial Liabilities*

Issued financial liabilities 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 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.

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 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 or the Group has an unconditional right to defer settlement for at least twelve months from the balance sheet date. Otherwise, these are classified as noncurrent liabilities.

#### 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.

#### Impairment of Financial Assets 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 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 the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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 asset 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 impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### 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 when:

1. the rights to receive cash flows from the asset have expired;
2. the Group has transferred their rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flow in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred 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. In that case, the Group also recognized an associated liability. The transferred asset and the associate liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial Liability*

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 profit or loss

#### 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 acquisition and that are subject to an insignificant risk of changes in value.

#### Investment in Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The consideration made in determining the significant influence is similar to those necessary to determine control over subsidiaries.

The Group’s investment in associate is accounted for using the equity method. Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share in net assets of the associate since acquisition date.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of this investee is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate is 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.

#### 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. This condition is met only when the asset is available for immediate sale in its present condition subject only to terms that are customary for sales of such assets and the sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and there is an active program to locate a buyer. Further, the asset must be actively marketed for sale at price that is reasonable in relation to its current fair value and sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. An extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset. Assets held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are presented separately as current assets in the consolidated balance sheets.

#### 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. Such costs include the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. 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.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets, as follows:

<u>Category</u>	<u>Number of Years</u>
Internet and communications equipment	2-5
Furniture, fixtures and equipment	3-5

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.

The estimated useful lives and depreciation method 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 profit or loss.

Fully depreciated property and equipment s are retained in the accounts until these are no longer use.

#### Investment Properties

Investment properties are measured at cost, including transaction costs, less any impairment in value.

Expenditures incurred after the investment properties has been put in operation, such as repairs and maintenance costs, are normally charged in profit or loss in the period in which the costs are incurred.

Investment properties are derecognized when it has either been disposed of or permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of investment properties are recognized in profit or loss in the period of derecognition.

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

#### Input VAT

Input VAT represents tax 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 that will be used to offset the Group's current output VAT liability is recognized as current asset in the consolidated balance sheet. Input VAT is stated at its estimated net realizable value.

#### Impairment of Nonfinancial Assets

##### *Investment in Associate*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in associate. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If there is such evidence, the Group calculates the amount of impairment as being the difference between the fair value of the associate and its carrying amount, and recognizes the loss as part of "Equity in net earnings of an associate" in profit or loss.

##### *Property and Equipment, Investment Properties and Input VAT*

The Group assesses at each balance sheet date whether there is an indication that the property and equipment, investment properties and input VAT may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher between an asset's or cash-generation unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amounts. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the



time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. Any impairment loss is recognized in profit or loss.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount.

A previously recognized impairment loss is reversed only if there has been change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

#### Retirement Benefits

The Group has a defined retirement benefit plan which requires contributions to be made to separately administered fund.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined retirement benefit plan is actuarially determined by an independent qualified actuary using the projected unit credit method.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of asset ceiling (excluding net interest on net defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on the market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate

that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

#### Common Stock

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

#### Deficit

Deficit includes accumulated profits and losses and remeasurement gains and losses on defined benefit plan attributable to the Company's stockholders. Deficit may also include effect of changes in accounting policy as may be required by standard's transitional provisions.

#### Revenue Recognition

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

#### *Service Income*

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

#### *Interest Income*

Interest income is recognized as it accrues taking into account the effective yield of the asset.

#### Costs 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 incurred.

#### *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 incurred

#### Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate at the balance sheet date. Foreign exchange differences between the rates at transaction date and settlement date or balance sheet date are recognized in profit of

loss. Nonmonetary items are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of initial transactions.

The functional currency of the Company and its Subsidiary is 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 prevailing 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 in the consolidated balance sheets.

### Income Taxes

#### *Current Income Tax*

Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted 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 benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized in the future.

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 in the future. 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.

Deferred income tax relating to the items recognized in other comprehensive income if recognized in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax assets or liabilities are expected to be settled or recovered.

### 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 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.

### Earnings Per Share

Earnings per share is determined by dividing net earnings by the weighted average number of shares issued during the year after retroactive adjustment for any stock dividends declared and stock split. Diluted earnings 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.

### Segment Reporting

The Group's operating businesses are recognized and managed according to the nature of the services offered, with each segment representing a strategic business unit that serves different markets.

Segment assets include operating assets used by a segment and consist principally of operating cash, trade and other receivables, and property and equipment, net of allowances and provisions.

Segment liabilities include all operating liabilities and consist principally of trade and other payables. Segment assets and liabilities do not include deferred income taxes.

### 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 recognized as an expense in profit or loss 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.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

The Group will adopt the standards and interpretations enumerated below when these become effective. The Group does not expect the adoption of these amended standards and new Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) to have significant impact on the consolidated financial statements.

*Effective in 2014*

*Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

*Amendments to PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to “set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous.

*PAS 36 (Amendments), Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets*

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period.

*PAS 39 (Amendments), Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

*Philippine Interpretation IFRIC 21, Levies*

Philippine Interpretation IFRIC 21 clarifies that an entity recognized a liability for a levy when the activity trigger payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

*Effective in 2015*

*PAS 19 (Amendments), Employee Benefits – Defined Benefit Plans: Employee Contributions*

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

*Improvements to PFRSs*

The Annual Improvements to PFRSs contain non-urgent but necessary amendments to PFRSs. These improvements will be adopted by the Company starting January 1, 2015.

*2010-2012 Cycle*

- PFRS 2, *Shared-based Payment – Definition of Vesting Condition*

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments- Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets*
- PFRS 13, *Fair Value Measurement –Short-term Receivables and Payables*
- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
- PAS 24, *Related Party Disclosures – Key Management Personnel*
- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*

#### *2011-2013 Cycle*

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of “Effective PFRSs”*
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Ventures*
- PFRS 13, *Fair Value Measurement – Portfolio Exception*
- PAS 40, *Investment Property*

#### *No Mandatory Effective Date*

##### *PFRS 9, Financial Instruments: Classification and Measurement*

PFRS 9, as issued, reflects the first and third phase of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity’s own risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

#### *Deferred Effectivity*

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

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standard Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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### 3. Significant Accounting Judgments, Estimates and Assumptions

The consolidated financial statements prepared in accordance with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The judgments, estimates and assumptions 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, estimates and assumptions 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.

##### *Determining Whether Significant Influence Exists for Purposes of Applying PAS 28*

The Group evaluates various factors in determining whether significant influence exists. Under PAS 28 there is a presumption that if ownership is below 20%, significant influence does not exist unless otherwise supported. Among the factors being considered by management in the assessment are, degree of representation in the BOD of the investee, corporate governance arrangements, and power to veto significant operating and financial decisions. Under the exercise of this judgment, the Company classified its 3.8% investment in ePI as an investment in associate. The carrying value of this investment amounted to ₱33,838,734 and ₱34,883,943 as of September 30, 2014 and December 31, 2013, respectively (see Note 6).

##### *Classification of Assets Held for Sale*

The Group exercises judgment in classifying an asset as held for sale based on whether the asset will be principally recovered through a sale transaction or through continuing use. An asset qualifies as held for sale when the appropriate level of management committed to a plan to sell the asset and there is an active program to locate a buyer. As of December 31, 2012, the Group determined that the remaining parcels of land from its paging business will still be recovered through sale and such sale is highly probable, and thus, still qualifies as assets held for sale. As of December 31, 2012, the carrying amount of assets held for sale, which is lower than its fair value less costs to sell, amount to ₱2,081,535. In 2013, the management has assessed that the disposal of the assets held for sale is no longer highly probable due to the current market condition and changes in circumstances beyond the Group's control, and therefore reclassified these assets to "Investment properties" in the consolidated balance sheet (see Note 8 and 9).

##### *Operating Lease – the Group as a Lessee*

The Group has entered into a lease agreement as a lessee. The Company has determined that the lessor retains

## Estimates and Assumptions

### *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 allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Group also determines trade and other receivables to be written off based on assessments and result of earnest efforts exerted by management to collect such trade and other receivables.

No provision for impairment losses on trade and other receivables was recognized as of September 30, 2014. Trade and other receivables, net of allowance for impairment of ₱3,520,453, amounted to ₱16,936,834 and ₱13,776,642 as of September 30, 2014 and December 31, 2013, 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 ₱559,920 and ₱2,110,277 as of September 30, 2014 and December 31, 2013, respectively (see Note 7).

### *Estimating Impairment of Investment in Associate*

The Group performs an impairment review on its investment whenever an impairment indicator exists. This requires an estimation of the value in use of the investment in associate. Estimating the value in use requires the Group to make an estimate of the expected future cash flows of the associate 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 for each of the three years in the period ended December 31, 2013 that may indicate that the carrying amounts of the Group's investments in associate is not recoverable.

No impairment loss on investment in associate was recognized as of September 30, 2014. The carrying amounts of the Group's investment in associate amounted to ₱33,838,734 and ₱34,883,943 as of September 30, 2014 and December 31, 2013, respectively (see Note 6).

### *Estimating Impairment of Property and Equipment, Investment Properties 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 computed using the asset's value in use. The value in use is based on 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.

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 on property and equipment, investment properties and input VAT were recognized as of September 30, 2014. The aggregate carrying amounts of property and equipment and input VAT amounted to ₱2,557,895 and ₱6,172,312 as of September 30, 2014 and December 31, 2013, respectively (see Notes 7 and 9).

#### *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 September 30, 2014 (see Note 8).

#### *Estimating Retirement Benefits*

The cost of retirement benefit plan and present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefit increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefit increases are based on expected future inflation rates for the specific country.

As of September 30, 2014 and December 31, 2013, the Group's retirement benefit asset amounted to ₱524,468 (see Note 16).

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

The Group reviews its deferred income tax assets at each balance sheet date and reduces the carrying amounts 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 in the future.

The Group's assessment on the recognition of deferred income tax assets on deductible temporary difference is based on forecasted taxable income. This forecast is based on Group's past results and future expectations on revenues and expenses. 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 in the future.

### *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.

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#### 4. Cash and Cash Equivalents

	<b>Sept 30, 2014 (Unaudited)</b>	Dec. 31, 2013 (Audited)
Cash with banks	<b>₱53,071,248</b>	₱15,112,145
Short-term placements	-	51,163,258
	<b>₱53,071,248</b>	₱66,275,403

Cash with banks earn interest at the respective bank deposit rates.

Interest income earned from cash with banks and short-term placements amounted to ₱133,552 and ₱734,400 for the period ended September 30, 2014 and 2013, respectively.

#### 5. Trade and Other Receivables

	<b>Sept 30, 2014 (Unaudited)</b>	Dec. 31, 2013 (Audited)
Trade	<b>₱4,466,841</b>	5,533,252
Advances to officers and employees	<b>34,906</b>	1,037,450
Others	<b>12,435,087</b>	10,726,393
	<b>16,936,834</b>	17,297,095
Less allowance for impairment losses		(3,520,453)
	<b>₱16,936,834</b>	₱13,776,642

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

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

As of September 30, 2014 the aging analysis of unimpaired trade and other receivables is as follows:

	Neither Past Due Nor Impaired	Past Due But Not Impaired				
		Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	Total
<b>Sept 30, 2014</b>	<b>₱5,873,451</b>	<b>₱540,873</b>	<b>₱78,498</b>	<b>₱616,418</b>	<b>₱9,827,591</b>	<b>₱16,936,834</b>
Dec. 31, 2013	2,267,027	747,576	417,019	393,850	9,951,170	13,776,642

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#### 6. Investment in Associate

Investments in associate represent 3.8% investment in ePI, a contact center outsourcing business in the Philippines.

The movements of investment in ePI are as follows:

	Sept 30, 2014 (Unaudited)	Dec. 31, 2013 (Audited)
Acquisition cost	<b>₱21,948,203</b>	₱21,948,203
Accumulated equity in net earnings:		
Balances at beginning of year	<b>13,925,745</b>	9,097,998
Equity in net earnings	<b>3,543,120</b>	6,732,747
Dividends received	<b>(6,096,000)</b>	(1,905,000)
Balances at end of quarter/year	<b>11,372,865</b>	13,925,745
Share in CTA:		
Balances at beginning of year	<b>(990,005)</b>	1,856,623
Addition (reduction)	<b>1,507,671</b>	(2,846,628)
Balances at end of quarter/year	<b>517,666</b>	(990,005)
	<b>₱33,838,734</b>	₱34,883,943

The summarized financial information of ePI as of September 30, 2014, December 31, 2013 and 2012, are as follows (in thousands):

	Sept 2014	2013	2012
Current assets	<b>₱844,494</b>	₱884,411	₱638,831
Noncurrent assets	<b>381,869</b>	364,099	473,886
Current liabilities	<b>278,837</b>	290,589	323,888
Noncurrent liabilities	<b>8,932</b>	-	1,217
Revenues	<b>1,988,928</b>	2,549,666	2,154,490
Net Income	<b>93,240</b>	183,934	100,285

The undistributed earnings of ePI included in the consolidated deficit amounted to ₱13,925,745 and ₱9,097,998 as of December 31, 2013 and 2012, respectively, which is not currently available for dividend distribution unless declared by such investee.

## 7. Property and Equipment

### September 30, 2014

	Furniture, Fixtures and Equipment	Internet Equipment	Total
<b>Cost:</b>			
Balances at beginning of year	<b>₱342,280</b>	<b>₱16,465,590</b>	<b>₱16,807,870</b>
Additions	<b>-</b>	<b>100,667</b>	<b>100,667</b>
Balances at end of year	<b>342,280</b>	<b>16,566,257</b>	<b>16,908,537</b>
<b>Accumulated depreciation:</b>			
Balances at beginning of year	<b>250,877</b>	<b>14,446,716</b>	<b>14,697,593</b>
Depreciation (see Notes 13 and 14)	<b>8,845</b>	<b>1,646,179</b>	<b>1,655,024</b>
Balances at end of year	<b>259,722</b>	<b>16,092,895</b>	<b>16,352,617</b>
<b>Net book values</b>	<b>₱82,558</b>	<b>₱473,362</b>	<b>₱555,920</b>

December 31, 2013

	Furniture, Fixtures and Equipment	Internet Equipment	Total
Cost:			
Balances at beginning of year	₱236,135	₱16,205,146	₱16,441,281
Additions	106,145	260,444	366,589
Balances at end of year	342,280	16,465,590	16,807,870
Accumulated depreciation:			
Balances at beginning of year	236,135	11,168,267	11,404,402
Depreciation (see Notes 13 and 14)	14,742	3,278,449	3,293,191
Balances at end of year	250,877	14,446,716	14,697,593
Net book values	₱91,403	₱2,018,874	₱2,110,277

Cost of fully depreciated property and equipment which are still being used in the operation amounted to ₱804,268 as of September 30, 2014 and December 31, 2013.

Depreciation is presented in the following accounts within the consolidated statements of comprehensive income:

	Sept 2014	Dec 2013	Dec 2012
Costs of services (see Note 13)	₱1,568,095	₱3,229,936	₱3,197,169
General and administrative expenses (see Note 14)	86,929	63,255	17,538
	₱1,655,024	₱3,293,191	₱3,214,707

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## 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. As of December 31, 2012, the remaining parcels of land are still expected to be disposed through a sale transaction. Management continues to commit itself to pursue its plan to sell the remaining parcels of land given the extension of the period to complete the sale.

In 2013, the management has assessed that the disposal of the remaining parcels of land is no longer highly probable due to the current market condition and changes in circumstances beyond the Group's control. Consequently, the Group ceased to classify the remaining parcels of land as assets held sale, despite management's commitment to pursue its plan to sell such assets, and reclassified these assets to "Investment properties" in the consolidated balance sheet (see Note 9).

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## 9. Investment Properties

Investment properties consist of the acquisition costs of parcels of land which were part of the paging business of the Group (see Note 1) and are currently held for undetermined future use. The

relative fair market value of these properties amounted to ₱ 3,645,000, which has been determined based on the assessment of market conditions by an independent professional appraiser as of December 31, 2013.

In determining the appropriate class of investment properties, the Group has considered the nature, characteristics and risk of its properties as well as the level of the fair value hierarchy within which the fair value measurements are categorized. This resulted in determining the fair value of investment properties under Level 3 of the fair value hierarchy.

No significant maintenance costs were incurred to maintain the Group's investment properties. The Group has no restrictions on the realizability of its investment properties.

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## 10. Trade and Other Payables

	<b>Sept 30, 2014</b>	Dec. 31, 2013
	<b>(Unaudited)</b>	(Audited)
Trade	<b>₱1,230,515</b>	₱1,737,212
Accrued expenses	<b>1,030,850</b>	2,152,641
Others	<b>1,008,544</b>	643,328
	<b>₱3,269,909</b>	₱4,533,181

Trade payables are noninterest-bearing and normally have 30-day credit term.

Accrued expenses include accrual for professional fees, employee-related expenses, communications, subscription dues, leaseline subscription fees, management fees and shared service fees. Accrued expenses are normally settled within a year.

Other payables consist mainly of statutory payables such as withholding taxes, Social Security System premiums, health insurance and other government liabilities.

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## 11. 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 Note 1, related party transactions in the ordinary course of business, which are made at terms equivalent to those that prevail in arm's length transactions, are as follows:

- a.) Compensation of key management personnel of the Group.
- b.) Participation by the Group in the Transnational Diversified Group of Companies Retirement Plan (the Group Plan see Note 16).

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## 12. Capital Stock

The BOD approved 42,557,170 (net of 26,113 exercised in 2005) warrants issued to the stockholders in 2003. 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 Company to the registered owners of the warrants, subject to the terms and conditions of the warrant certificate. There were no warrants exercised in September 30, 2014 and December 31, 2013.

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 Internet Protocol-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.

As discussed in Note 1, on April 14, 2010, the PSE approved the application of the Company to list additional 46,570,025 common shares with a par value of ₱1.00 per share to cover the private placement by GeBSI at a subscription price at par.

Based on the Company's track record of registration of securities under the Securities Regulation Code of the Philippine SEC, the Company has 300,000,000 authorized shares at ₱1.00 par value or a total par value of ₱300,000,000 since its date of registration (see Note 1). As of September 30, 2014 and December 31, 2013, there were no movements in the Company's registered securities.

As of September 30, 2014, there are 299 shareholders who hold 150,000,000 shares.

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## 13. Costs of Services

	Period Ended Sept30	
	2014	2013
Cost of leaseline subscriptions	<b>₱7,744,228</b>	₱5,698,523
Depreciation (see Note 7)	<b>1,568,095</b>	2,429,977
Employee-related (see Note 15)	<b>2,538,392</b>	2,308,502
	<b>₱11,850,715</b>	₱10,437,002

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## 14. General and Administrative Expenses

	Period Ended Sept 30	
	2014	2013
Management and consultancy fees	<b>₱1,778,077</b>	₱1,492,206
Subscription dues	<b>1,023,175</b>	567,550
Employee-related	<b>375,603</b>	596,838
Rent and utilities	<b>652,747</b>	667,384
Communications	<b>498,729</b>	557,872
Taxes and licenses	<b>417,184</b>	361,974
Professional fees	<b>292,831</b>	294,703
Office supplies	<b>123,610</b>	167,007
Seminars and trainings	<b>172,800</b>	162,056
Depreciation	<b>86,929</b>	39,357
Repairs and maintenance	<b>61,156</b>	16,439
Transportation and travel	<b>21,611</b>	13,609
Others	<b>491,220</b>	446,555

<b>₱5,995,672</b>	<b>₱5,383,550</b>
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#### 15. Employee-related Expenses

	Period Ended Sept 30	
	2014	2013
Salaries and wages	<b>₱2,181,098</b>	₱2,610,546
Employees benefits	<b>732,897</b>	294,794
	<b>₱2,913,995</b>	₱2,905,340

Employee-related expenses are presented in the consolidated statements of comprehensive income as follows:

	Period Ended Sept 30	
	2014	2013
Costs of services (see Note 13)	<b>₱2,538,392</b>	₱2,308,502
General and administrative expenses (see Note 14)	<b>375,603</b>	596,838
	<b>₱2,913,995</b>	₱2,905,340

#### 16. Retirement Benefit Plan

The Group participates in the Group Plan, a funded, noncontributory defined benefit retirement plan, covering substantially all regular employees of the participating companies. Benefits are based on certain percentage of the final monthly basic salary for every year of credit service of the employees. The annual contribution to be paid by the participating companies to the Group Plan is based on the unfunded actuarial liability computed individually for each participating company.

The funds are administered by the Board of Trustees (BOT) appointed by TDC, the Group's ultimate parent company. The BOT is responsible for the investing decisions of the Group Plan and defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. Under the existing regulatory framework, RA No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

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

	2013	2012
Cash and cash equivalents	<b>35%</b>	35%
FVPL investments	<b>22%</b>	23%
Investment in pension trust	<b>13%</b>	13%
Investment in share of stock	<b>5%</b>	5%
Others	<b>25%</b>	24%

The Group Plan's assets and investments consist of the following:

- Cash and cash equivalents, which includes regular saving and time deposits;
- FVPL investments, which includes marketable securities;

- Investment in pension trust, which represents a pension policy plan from TPI, a wholly-owned subsidiary of TDC, with trust funds that are managed by a trustee bank as per regulations of the Philippine SEC;
- Investment in shares of stock, which includes proprietary shares in listed corporations; and
- Other investments, which includes investment in real estate.

The principal actuarial assumptions used to determine the defined benefit obligation are as follows:

	<b>2013</b>	2012
Discount rate	<b>5.89%</b>	6.35%
Investment yield	<b>5.00%</b>	5.00%
Retirement date	<b>Age 60 and 10 years of credited service</b>	Age 60 and 10 years of credited service
Wages and salary increases		
Rank and file and non-managers	<b>5.00%</b>	5.00%
Managers and up	<b>5.00%</b>	5.00%
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 sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of defined benefit obligation as of December 31, 2013, assuming all other assumptions were held constant:

		Increase (Decrease)
Discount rate	+100 basis points	(P88,200)
	-100 basis points	92,299
Future wage and salary rate increases	+1.00%	98,800
	-1.00%	(80,900)

The Group did not prepare sensitivity analysis on turnover rates after it has assessed that it would not be reliable for smaller scale defined benefit plan.

The management performed an Asset-Liability Matching Study annually. The overall investment policy and strategy of the Group Plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while mitigating the various risk of the plan. The Group's current investment strategy consists of 60% of liquid investments and 40% of long-term investments.

The Group does not expect to contribute to the Group Plan in 2014.

The average duration of the defined benefit obligation as of December 31, 2013 is 26.6 years.

The maturity analysis of the undiscounted benefit payments as of December 31, 2013 is as follows:

Less than 1 year	P-
More than 1 year but less than 5 years	-
More than 5 years but less than 10 years	-
More than 10 years but less than 15 years	37,649



More than 15 years but less than 20 years	3,006,938
More than 20 years	10,782,665

## 17. Income Taxes

For each of the three years in the period ended December 31, 2013, the provision for current income tax represents the Company's MCIT and e-Serve's regular corporate income tax.

The components of the Group's deferred income tax asset and liabilities recognized in the consolidated balance sheets are as follows:

	Sept 2014	2013
Deferred income tax asset:		
NOLCO	P21,592	P-
Unrealized foreign exchange losses-net	-	4,419
	<b>21,592</b>	4,419
Deferred income tax liabilities:		
Retirement benefit asset	157,340	70,049
Unrealized foreign exchange gains - net	24,891	-
	<b>182,231</b>	70,049
Net deferred income tax liabilities	<b>P160,639</b>	P65,360

As of September 30, 2014 and December 31, 2013, the Group has the following deductible temporary differences and carryforward benefits of unused NOLCO and unused tax credits from excess MCIT on 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:

	Sept 2014	2013
Allowance for impairment losses	P4,326,710	P4,326,710
NOLCO	3,520,453	3,520,453
MCIT	98,869	98,869
	<b>P7,946,032</b>	P7,946,032

As of September 30, 2014 and December 31, 2013, 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
2012	2015	P580,369	P43,027
2012	2015	1,803,587	25,665
2011	2014	2,014,728	30,177
		<b>P4,398,684</b>	<b>P98,869</b>

The following are the movements in NOLCO and MCIT:

	Sept 2014	2013
NOLCO		
Balances at beginning of year	P3,826,225	P3,826,225
Additions	580,369	580,369
Expirations	(7,910)	(7,910)
Balances at end of year	<b>P4,398,684</b>	<b>P4,398,684</b>

MCIT	Sept 2014	2013
Balances at beginning of year	<b>₱97,684</b>	₱97,684
Additions	<b>43,027</b>	43,027
Expiration	<b>(41,806)</b>	(41,806)
Balances at end of year	<b>₱98,905</b>	₱98,905

## 18. Earnings Per Share

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

Basic earnings per share:

	Sept 2014	2013	2012 (As Restated)
Net income	<b>₱7,011,533</b>	₱7,783,030	₱4,127,846
Divided by weighted average number of outstanding shares	<b>150,000,000</b>	150,000,000	150,000,000
Basic earnings per share	<b>₱0.05</b>	0.05	₱0.03

Diluted earnings per share:

	Sept 2014	2013	2012 (As Restated)
Net income	<b>₱7,011,533</b>	₱7,783,303	₱4,127,846
Divided by:			
Weighted average number of ordinary shares for basic earnings per share	<b>150,000,000</b>	150,000,000	150,000,000
Effect of dilution:			
Exercisable warrants (see Note 11)	<b>42,557,170</b>	42,557,170	42,557,170
	<b>192,557,170</b>	192,557,170	192,557,170
Diluted earnings per share	<b>₱0.04</b>	₱0.04	₱0.02

## 19. Segment Information

PFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker.

For management purposes, the Group's operating segments are determined to be business segments as the risks and rates of return are affected predominantly by differences in the services rendered. The operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that serves different markets.

The information technology services segment is engaged to operate as Internet Services Provider in the Philippines.

The contact center outsourcing business segment is engaged in contact center operations, software development, back-office processing and system integration.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenues and cost of services are measured in accordance with PFRS. Segment performance is evaluated based on operating income or loss and is measured consistently with income before income tax as reported in the consolidated financial statements.

#### Business Segments

The following tables present revenue and profit and certain asset and liability information regarding the Group's business segments for the years ended September 30, 2014, December 31, 2013 and 2012 (in thousands):

#### **September 2014**

	<b>Information Technology Services</b>	<b>Contact Center Outsourcing Business</b>	<b>Total Segments</b>	<b>Adjustments and eliminations</b>	<b>Consolidated</b>
<b>Service income</b>	<b>₱21,349</b>	<b>₱1,988,928</b>	<b>₱2,010,277</b>	<b>(₱1,988,928)</b>	<b>₱21,349</b>
<b>Costs of services</b>	<b>11,851</b>	<b>1,543,089</b>	<b>1,554,940</b>	<b>(1,543,089)</b>	<b>11,851</b>
<b>Gross profit</b>	<b>9,498</b>	<b>445,839</b>	<b>455,337</b>	<b>(445,839)</b>	<b>9,498</b>
<b>General and administrative expenses</b>	<b>(5,996)</b>	<b>(351,909)</b>	<b>(357,905)</b>	<b>351,909</b>	<b>(5,996)</b>
<b>Equity in net earnings of an associate</b>	<b>3,543</b>	<b>-</b>	<b>3,543</b>	<b>-</b>	<b>3,543</b>
<b>Dividend income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other income - net</b>	<b>133</b>	<b>(11)</b>	<b>122</b>	<b>11</b>	<b>133</b>
<b>Income before income tax</b>	<b>7,178</b>	<b>93,919</b>	<b>101,107</b>	<b>(93,919)</b>	<b>7,178</b>
<b>Provision for (benefit from) income taxes</b>					
<b>Current</b>	<b>168</b>	<b>680</b>	<b>848</b>	<b>(680)</b>	<b>168</b>
<b>Deferred</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>168</b>	<b>680</b>	<b>848</b>	<b>(680)</b>	<b>168</b>
<b>Net income (loss)</b>	<b>₱7,010</b>	<b>₱93,239</b>	<b>₱100,259</b>	<b>(₱93,239)</b>	<b>₱7,010</b>
<b>Operating assets</b>	<b>₱71,264</b>	<b>₱844,494</b>	<b>₱915,758</b>	<b>(₱844,494)</b>	<b>₱71,264</b>
<b>Operating liabilities</b>	<b>₱3,270</b>	<b>₱249,227</b>	<b>₱252,497</b>	<b>(₱249,227)</b>	<b>₱3,270</b>
<b>Investment in an associate</b>	<b>₱33,839</b>	<b>₱-</b>	<b>₱33,839</b>	<b>₱-</b>	<b>₱33,839</b>
<b>Capital expenditures</b>	<b>₱39,453</b>	<b>₱381,869</b>	<b>₱421,322</b>	<b>(₱381,869)</b>	<b>₱39,453</b>

## 2013

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and eliminations	Consolidated
Service income	₱24,276	₱2,549,666	₱2,573,942	(₱2,549,666)	₱24,276
Costs of services	14,883	2,269,562	2,284,445	(2,269,562)	14,883
Gross profit	9,393	280,104	289,497	(280,104)	9,393
General and administrative expenses	(8,965)	(134,770)	(143,735)	134,770	(8,965)
Equity in net earnings of an associate	6,733	–	6,733	–	6,733
Dividend income	1,905	–	1,905	(1,905)	–
Other income - net	980	43,797	44,777	(43,797)	980
Income before income tax	10,046	189,131	199,177	(191,036)	8,141
Provision for (benefit from) income taxes					
Current	347	5,186	5,533	(5,186)	347
Deferred	10	11	21	(11)	10
	357	5,197	5,554	(5,197)	357
Net income (loss)	₱9,689	₱183,934	₱193,623	(₱185,839)	₱7,784
Operating assets	₱82,162	₱1,026,058	₱1,108,220	(₱1,026,058)	₱82,162
Operating liabilities	₱4,533	₱237,762	₱242,295	(₱237,762)	₱4,533
Investment in an associate	₱34,884	₱–	₱34,884	₱–	₱34,884
Capital expenditures	₱367	₱165,707	₱166,074	(₱165,707)	₱367

## 2012

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and eliminations	Consolidated
Service income	₱20,043	₱2,247,853	₱2,267,896	(₱2,247,853)	₱20,043
Costs of services	12,114	2,045,073	2,057,187	(2,045,073)	12,114
Gross profit	7,929	202,780	210,709	(202,780)	7,929
General and administrative expenses	(7,864)	(91,624)	(99,488)	91,624	(7,864)
Equity in net earnings of an associate	3,045	–	3,045	–	3,045
Dividend income	953	–	953	(953)	–
Other income (expenses) - net	1,544	(28,490)	(26,946)	28,490	1,544
Income before income tax	5,607	82,666	88,273	(83,619)	4,654
Provision for income taxes					
Current	656	2,480	3,136	(2,480)	656
Deferred	(60)	174	114	(174)	(60)
	596	2,654	3,250	(2,654)	596
Net income	₱5,011	₱80,012	₱85,023	(₱80,965)	₱4,058
Operating assets	₱78,097	₱885,028	₱963,125	(₱885,028)	₱78,097
Operating liabilities	₱2,982	₱251,383	₱254,365	(₱251,383)	₱2,982
Investment in an associate	₱32,903	₱–	₱32,903	₱–	₱32,903
Capital expenditures	₱919	₱55,470	₱56,389	(₱55,470)	₱919

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## 20. Financial Instruments and Capital Risk Management

### Financial Risk Management Objectives and Policies

The Group's financial instruments comprised of 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 their financial obligations as they fall due. The Group's objectives to managing liquidity risk is to ensure, as far as possible, that they 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 carrying values of cash and cash equivalents and trade and other receivables as of September 30, 2014 and December 31, 2013 are readily available for liquidity purposes. The outstanding balances of trade and other payables and advances from a stockholder are due and demandable as of September 30, 2014 and December 31, 2013.

### *Credit Risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade and other 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, trade and other receivables 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. As of September 30, 2014 and December 31, 2013, the Group has no significant concentration of credit risk.

The Group's maximum exposure to credit risk is the aggregate carrying amounts to its financial assets. As of September 30, 2014 and December 31, 2013, the Group has no significant concentration of credit risk.

Cash and cash equivalents are deposits and money market placements with reputable banks duly approved by BOD. Except for certain receivables which were fully provided with allowance for impairment losses, all of the Group's trade and other receivables are collectible and in good standing.

#### 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 the short-term maturities of these financial instruments.

#### 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 September 30, 2014 and December 31, 2013.

The Group considers the following as its core capital:

	<b>September 2014</b>	2013
Capital stock	<b>₱150,000,000</b>	₱150,000,000
Deficit	<b>(43,231,999)</b>	(51,233,538)
	<b>₱106,768,001</b>	₱98,766,462