

SEC Number 168736

File Number \_\_\_\_\_

**EASYCALL COMMUNICATIONS PHILIPPINES, INC.**

(Company's Full Name)

**The Penthouse, Net Quad Bldg. 4<sup>th</sup> Ave. cor 30<sup>th</sup> St. E-Square Crescent Park  
West, Bonifacio Global City, Taguig**

(Company's Address)

**(632) 830-8888**

(Telephone Number)

**December 31**

(Calendar Year Ending)

**SEC Form 17-Q**

Form Type

**June 30, 2016**

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 – June 30, 2016

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

**The Penthouse, Net Quad Bldg. 4<sup>th</sup> Ave. cor 30<sup>th</sup> St. E-Square  
Crescent Park West, Bonifacio Global City      1634**

8. Issuer's telephone number, including area code  
(632) 830-8888

9. Former name, former address and former fiscal year, if changed since last report  
**2<sup>nd</sup> Floor Mary Bachrach Building, 25<sup>th</sup> St. corner  
A. C. Delgado St., Port Area, Manila**

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

Title of each Class      Number of shares of common  
stock issued and subscribed

<b>Common Shares</b>	<b>150,000,000 shares</b>
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11. Are any or all of the securities listed on a Stock Exchange?

Yes  No

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

**PHILIPPINE STOCK EXCHANGE**                      **Common Shares**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes  No

(b) Has been subject to such filing requirements for the past ninety (90) days.

Yes  No

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

Please refer to the attached Financial Statements.

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

#### SUMMARY

For the year to date June 30, 2016, EasyCall Communications Philippines, Inc. (the Company) generated a consolidated net income of ₱1.72 million, as compared to the net income of the same period last year of ₱5.33 million. The decrease in net income of 68% was primarily due to the decrease in equity in net earnings of the Company with ePerformax International Inc. (EPMAX).

During the second quarter of 2016, EasyCall E-Services Inc. (ESERVE), a wholly owned subsidiary of the Company, recorded service revenue in the amount of ₱12.87 million which is 6.81% higher compared to last year's level of ₱12.05 million. Also during the second quarter of 2016, general and administrative (G&A) expenses increased from ₱3.24 million last year to P3.70 million this year. This resulted to decrease in net income before tax of 1.12%, from ₱1.30 million net income to P0.14 million net loss for the period.

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

	ECPI		ESERVE		EPMAX	
	Year-to-date June 30, 2016	One Year Ended Dec. 31, 2015	Year-to-date June 30, 2016	One Year Ended Dec. 31, 2015	Year-to-date June 30, 2016	One Year Ended Dec. 31, 2015
Current Ratio	1.54	0.28	33.02	1.56	1.81	2.74
Debt to Equity Ratio	0.36	0.23	9.04	1.51	0.34	0.33
Asset to Equity	1.00	1.23	1.00	2.51	1.34	1.33
Interest Rate Coverage Ratio	N/A	N/A	N/A	N/A	2.93	366.87
Gross Margin (in 000's)	3,043.15	5,614.55	3,629.91	8,571.91	128,276.14	415.85
Gross Profit Rate	30.04%	79.18%	28.20%	35.27%	8.66%	13.20%
Percentage of Operating Expense to Sales	-11.61%	-53.35%	-28.76%	27.79%	-8.60%	5.19%
Net Profit Ratio	18.34%	134.63%	-0.43%	5.22%	0.05%	8.31%

<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.

<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.

## **REVENUES**

During the second quarter of 2016, the Company's consolidated service income stood at P23.00 million, which is 59% increase than the same period last year in the amount of ₱14.46 million. The Company generated P10.13 million in revenues from its own operations, and P12.87 million in revenues from its subsidiary, ESERVE.

## **COST AND EXPENSES**

Direct costs (i.e., cost of leased line subscriptions) increased by 114% from ₱7.62 million for the second quarter of 2015 to P16.34 million for the second quarter of 2016. The increase is mainly attributed to the depreciation of assets being used in operations and increase in manpower. General and administrative expenses increased by 1% this quarter at P4.88 million compared to ₱4.83 million 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 loss of P0.84 million for the second quarter of 2016.

## **INTEREST INCOME**

During the second quarter of this year, the Company recognized other income in the amount of ₱.01 million, a 6% decreased compared to last year's other income of ₱0.02 million. The other income is derived mainly from interest earned from cash placements.

## **CASH AND CASH EQUIVALENTS**

As of June 30, 2016, the cash and cash equivalents amounted to P6.7 million, which increased by 65% from P19.3 million as of December 31, 2015.

## **TRADE AND OTHER RECEIVABLES**

As of June 30, 2016, the trade and other receivables amounted to P14.8 million, which decreased by 2% compared to the balance of ₱15 million as of December 31, 2015.

## **PREPAID EXPENSES AND OTHER CURRENT ASSETS**

As of June 30, 2016, the prepaid expenses and other current assets amounted to P1.92 million which increased by 152% compared to ₱1.26 million as of December 31, 2015. The increase pertains to payment of prepaid taxes and other licenses annual and quarterly basis.

## **INVESTMENTS IN ASSOCIATE**

As of June 30, 2016, the investments in shares of stocks amounted to P41.19 million and P40.84 million balance as of December 31, 2015.

## **PROPERTY AND EQUIPMENT**

The net book value of property, plant and equipment increased by 99% from P13.97 million as of December 31, 2015 to P27.81 million as of June 30, 2016. The increase was attributed to acquisition of internet and communications equipment during the period.

## **CURRENT LIABILITIES**

The total current liabilities from ₱26.19 million as of December 31, 2015 to P26.41 million as of June 30, 2016.

## **SHARE IN CUMULATIVE TRANSLATION ADJUSTMENT**

This represents changes in cumulative translation adjustments in the books of EPMAX, where the Company has a 3.8% share in equity ownership.

***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: August 12, 2016

**JOSE ENRIQUE C. SANTIAGO**  
Treasurer

Date: August 12, 2016

**RENATO VICENTE R. MARTINEZ**  
General Manager

Date: August 12, 2016



Easycall Communications Philippines, Inc.  
and Subsidiary

Consolidated Financial Statements  
As of June 30, 2016 and December 31, 2015,  
For the Quarter Ended June 30, 2016  
And Quarter Ended June 30, 2015

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

	<b>June 30, 2016</b>	Dec. 31, 2015
	<b>(Unaudited)</b>	(Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>₱6,696,568</b>	₱19,324,581
Trade and other receivables (Note 4)	<b>14,828,135</b>	15,123,210
Due from a related party (Note 13)	<b>51,422,301</b>	51,422,301
Prepaid expenses and other current assets	<b>3,182,661</b>	1,261,023
<b>Total Current Assets</b>	<b>76,129,665</b>	87,131,115
<b>Noncurrent Assets</b>		
Investment in associate (Note 5)	<b>41,190,412</b>	40,841,043
Property and equipment (Note 6)	<b>27,808,285</b>	13,971,199
Investment properties (Note 7)	<b>2,081,535</b>	2,081,535
Retirement benefit asset (Note 14)	<b>432,912</b>	432,912
Input value-added tax (VAT)	<b>3,038,583</b>	3,367,433
Other noncurrent assets	<b>1,850,133</b>	2,470,623
<b>Total Noncurrent Assets</b>	<b>76,401,860</b>	63,164,745
<b>TOTAL ASSETS</b>	<b>₱152,531,525</b>	₱150,295,860
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 8)	<b>₱10,093,917</b>	₱9,875,871
Advances from a stockholder (Notes 1 and 13)	<b>16,310,284</b>	16,310,284
<b>Total Current Liabilities</b>	<b>26,404,201</b>	26,186,155
<b>Noncurrent Liability</b>		
Deferred income tax liabilities - net (Note 15)	<b>134,318</b>	127,028
<b>Equity</b>		
Common stock (Note 9)	<b>150,000,000</b>	150,000,000
Share in other comprehensive income of an associate (Note 5)	<b>(262,091)</b>	(695,039)
Deficit (Note 1)	<b>(23,744,903)</b>	(25,322,284)
<b>Total Equity</b>	<b>125,993,006</b>	123,982,677
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱152,531,525</b>	₱150,295,860

*See accompanying Notes to Consolidated Financial Statements.*

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

	Year-to-date June		
	2016	2015	2014
<b>SERVICE INCOME</b> (Notes 1 and 13)	<b>₱23,002,535</b>	₱14,462,940	₱14,390,008
<b>COSTS OF SERVICES</b> (Note 10)	<b>(16,329,469)</b>	(7,617,686)	(8,238,203)
<b>GROSS PROFIT</b>	<b>6,673,066</b>	6,845,254	6,151,805
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 11)	<b>(4,877,919)</b>	(4,826,156)	(4,026,887)
<b>EQUITY IN NET EARNINGS (LOSS) OF AN ASSOCIATE</b> (Note 5)	<b>(83,579)</b>	3,394,514	1,883,445
<b>INTEREST INCOME</b>	<b>18,871</b>	20,036	126,533
<b>FOREIGN EXCHANGE GAINS (LOSS)</b>	<b>(11,049)</b>	(99,136)	–
<b>INCOME BEFORE INCOME TAX</b>	<b>1,719,390</b>	5,334,512	4,134,896
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 15)			
Current	<b>134,719</b>	58,196	–
Deferred	<b>7,290</b>	–	–
	<b>142,009</b>	58,196	–
<b>NET INCOME (LOSS)</b>	<b>1,577,381</b>	5,276,316	4,134,896
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Share in other comprehensive income of an associate (Note 5)	<b>432,948</b>	1,435,596	2,208,748
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱2,010,329</b>	₱6,711,914	₱6,343,644
<b>Basic Earnings Per Share</b> (Note 16)	<b>₱0.01</b>	₱0.04	₱0.03

*See accompanying Notes to Consolidated Financial Statements.*

**EASYCALL COMMUNICATIONS PHILIPPINES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED JUNE 30, 2016 AND 2015**

	For the Period Ended June 30, 2016			Total
	Capital Stock (Note 9)	Share in CTA of an Associate (Note 5)	Deficit (Note 1)	
<b>Balances at January 1, 2016</b>	<b>₱150,000,000</b>	<b>(₱695,039)</b>	<b>(₱25,322,284)</b>	<b>₱123,982,677</b>
Share in CTA of an associate (Note 5)	–	432,948	–	432,948
Net income for the period	–	–	1,577,381	1,577,381
<b>Total comprehensive income for the year</b>	–	432,948	1,577,381	2,010,329
<b>Balances at June 30, 2016</b>	<b>₱150,000,000</b>	<b>(₱262,091)</b>	<b>(₱23,744,903)</b>	<b>₱125,993,006</b>

	For the Period Ended June 30, 2015			Total
	Capital Stock (Note 9)	Share in CTA of an Associate (Note 5)	Deficit (Note 1)	
Balances at January 1, 2015	₱150,000,000	(₱4,278)	(₱38,187,049)	₱111,808,673
Share in CTA of an associate (Note 5)	–	1,435,599	–	1,435,599
Net income for the period	–	–	5,276,316	5,276,316
Total comprehensive income for the year	–	1,435,599	5,276,316	6,711,915
Balances at June 30, 2015	₱150,000,000	₱1,431,321	(₱32,910,733)	₱118,520,588

*See accompanying Notes to Consolidated Financial Statements.*

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

	<b>June 30 2016</b>	Years Ended December 31 2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱1,719,390</b>	₱13,692,558	₱10,334,370
Adjustments for:			
Depreciation (Note 6)	<b>1,450,978</b>	573,133	1,984,088
Retirement benefit expense (Note 14)	–	83,389	86,647
Equity in net earnings of an associate (Note 5)	<b>83,579</b>	(9,953,950)	(7,056,582)
Interest income	<b>(18,871)</b>	(65,016)	(144,379)
Unrealized foreign exchange losses (gains) – net	<b>11,049</b>	(35,011)	(30,459)
Operating income before changes in working capital	<b>3,246,125</b>	4,295,103	5,173,685
Increase in:			
Trade and other receivables	<b>(2,056,357)</b>	(64,735)	(1,200,739)
Prepaid expenses and other current assets	<b>295,074</b>	(1,508,196)	(420,379)
Trade and other payables	<b>218,046</b>	4,636,956	705,734
Net change in balances with related parties	–	–	(54,422,301)
Net cash generated from (used in) operations	<b>1,702,888</b>	7,359,128	(50,164,000)
Interest received	<b>18,871</b>	35,011	144,379
Income taxes paid	–	–	(230,022)
Net cash flows from (used in) operating activities	<b>1,721,759</b>	7,394,139	(50,249,643)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividends received (Note 5)	–	7,620,000	6,096,000
Additions to property and equipment (Note 6)	<b>(15,288,064)</b>	(14,317,476)	(100,667)
Decrease (increase) in			
Input VAT	<b>328,850</b>	(1,400,823)	13,890
Other noncurrent assets	<b>620,490</b>	(2,020,623)	–
Net cash flows from investing activities	<b>(14,338,724)</b>	(10,118,922)	6,009,223
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(12,616,964)</b>	(2,724,783)	(44,240,420)
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH</b>			
	<b>(11,049)</b>	9,484	4,897
<b>CASH AT BEGINNING OF YEAR</b>	<b>19,324,581</b>	22,039,880	66,275,403
<b>CASH AT END OF YEAR</b>	<b>₱6,696,568</b>	₱19,324,581	₱22,039,880

*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.

TDG Ventures, Inc. (TVI) (formerly 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, TVI 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 TVI 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 TVI 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, TVI 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, TVI reverted back its deposits for future stock subscriptions to advances from a stockholder (see Note 12). As of June 30, 2015, 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 TVI at a subscription price at par ₱46,570,025 (see Note 12).

On October 28, 2014, TVI and Star Asia Technologies PTE LTD. (SAT) executed a Memorandum of Agreement for the sale of 31,256,192 common shares covering around 20% interest at ₱3.50 per share. On the same date, the parties applied for a special block sales with the PSE. The special block sale was approved and successfully executed on November 4, 2014.

As of June 30, 2015, the Company complied with the minimum public float requirement of the local regulators following the divestment of a portion of the shares owned by TVI. TVI 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 The Penthouse, Net Quad Bldg. 4<sup>th</sup> Ave. cor 30<sup>th</sup> St. E-Square Park West, Bonifacio Global City, Taguig.

The consolidated financial statements of the Group as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 were authorized for issue by the BOD on March 14, 2016.

#### Segment Information

The Group has information technology services and contact center outsourcing business segments in June 2016, 2015, and 2014. 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 17).

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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.

### Statement of Compliance

The 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 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 amended standards, which are effective for annual periods beginning on or after January 1, 2015. The following amended standards did not have any significant impact on the Group's financial statements:

#### Philippine Accounting Standard (PAS) 19 (Amendments), *Employee Benefits - Defined Benefit Plans: Employee Contributions*

The amendments require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to



the periods of service. It is not expected that this amendment would be relevant to the Group, since the Group's plan does not require contributions from employees or third parties.

#### *Improvements to PFRSs*

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

#### *2010-2012 Cycle*

##### *PFRS 2, Share-based Payment - Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

##### *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as assets or liabilities arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of PAS 39. The Group shall consider this amendment for future business combinations.

##### *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

##### *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

##### *PAS 24, Related Party Disclosures - Key Management Personnel*

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the

related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

#### *2011-2013 Cycle*

##### *PFRS 3, Business Combinations - Scope Exceptions for Joint Ventures*

The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

##### *PFRS 13, Fair Value Measurement - Portfolio Exception*

The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

##### *PAS 40, Investment Property*

The description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the balance sheet based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the balance sheet date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the balance sheet date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent 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 participants 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 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 June 30, 2016 and December 31, 2015, 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 the 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 instruments are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of instruments 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 or AFS financial assets. The Group's financial assets are of the nature of loans and receivables. As of December 31, 2015 and 2014, 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. As of June 30, 2016 and December 31, 2015, the Group has no outstanding financial liabilities at FVPL.

#### *Loans and Receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated at FVPL. Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in "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", "Trade and other receivables", "Due from a related party" and other types of receivables.

#### *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 subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

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 deferred income tax liabilities).

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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 an 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 Asset*

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

1. the rights to receive cash flows from the asset have expired; or
- the Group has transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows 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) the Group has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated 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.

### 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 considerations 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.

### Property and Equipment

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

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 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 shall be depreciated separately.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method 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 accumulated 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 are retained in the accounts until these are no longer in 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.

#### Other Noncurrent Assets

##### *Input VAT*

Input VAT represents tax imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is stated at estimated net realizable value.

##### *Security Deposits*

Security deposits are cash advances to service providers relating to information and communication services, as determined in the service agreements. These deposits are measured at the amount of cash outflow at the time of payment and periodically reviewed for impairment.

## 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 the difference between the recoverable amount 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 Other Noncurrent Assets*

The Group assesses at each balance sheet date whether there is an indication that the property and equipment, investment properties and other noncurrent assets 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 the higher between an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 a 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 benefit plan is actuarially determined by an independent qualified actuary using the projected unit credit method.

Defined benefit costs consists of service costs, net interest on the net defined benefit liability or asset and 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 the 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 reclassified 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 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 Group 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 the Group's stockholders. Deficit may also include effects of changes in accounting policy as may be required by the 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 or loss. Nonmonetary items that 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 Group and its subsidiary is ₱ except for a subsidiary of the associate for 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 ₱, are translated into ₱ 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 other comprehensive income 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 net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate income tax (MCIT) to the extent that it is probable that taxable profit will be

available against which the deductible temporary differences and carryforward benefits of unused NOLCO and unused tax credits from excess MCIT 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 all or part of 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.

#### 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, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

When 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 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 lease term.

### 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, Interpretation and Amendments to Existing Standards Effective Subsequent to December 31, 2015

Standards and interpretation issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group will adopt these standards and interpretation when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards, improvements to PFRSs and new interpretation to have significant impact on its financial statements.

#### *Effective in 2016*

#### *PAS 1 (Amendments), Presentation of Financial Statements - Disclosure Initiatives*

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. The amendments clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of comprehensive income and the balance sheet may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the balance sheet and the statement of comprehensive income.

#### *PAS 16 (Amendments), Property, Plant and Equipment, and PAS 38 (Amendments),*

#### *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture - Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

PAS 27 (Amendments), *Separate Financial Statements - Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*

The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

PFRS 10 (Amendments), *Consolidated Financial Statements* and PAS 28 (Amendments), *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in PFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

PFRS 11 (Amendments), *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the

amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

#### *PFRS 14, Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items in the balance sheet and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

#### *Improvements to PFRSs (2012-2014 Cycle)*

##### *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment is applied prospectively and clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5.

##### *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

##### *PFRS 7, Financial Instruments: Disclosures - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

The amendment is applied retrospectively and clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

##### *PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate*

The amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

##### *PAS 34, Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within interim financial report

(e.g. in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

#### *Effective in 2018*

##### *PFRS 9, Financial Instruments*

In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial statements project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

#### *Deferred Effectivity*

##### *Philippine Interpretation from International Financial Reporting Interpretations Committee 15, Agreements for the Construction of Real Estate*

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

#### *New Standard Issued by the IASB but has not yet been Adopted by the FRSC*

##### *International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 by IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenues.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

### IFRS 16, *Leases*

On January 13, 2016, the IASB issued its new standard, IFRS 16, which replaces International Accounting Standard (IAS) 17, *Leases*, the current leases standard, and the related interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of twelve months or less or for which the underlying asset is of low value are exempted for these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

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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 Group has been determined to be the ₱. The ₱ is the currency of the primary economic environment in which the Group 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



₱41,190,412 and ₱40,841,043 as of June 30, 2016 and December 31, 2015, respectively (see Note 5).

#### *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, 2014, 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, 2014, 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 2014, 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 7).

#### *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 June 30, 2016. Trade and other receivables, net of allowance for impairment of ₱3,520,453, amounted to ₱14,828,135 and ₱15,123,210 as of June 30, 2016 and December 31, 2015, respectively (see Note 4).

##### *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 ₱27,808,285 and 13,971,199 as of June 30, 2016 and December 31, 2015, respectively (see Note 6).

#### *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, 2015 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 June 30, 2016. The carrying amounts of the Group's investment in associate amounted to ₱41,190,412 and ₱40,841,043 as of June 30, 2016 and December 31, 2015, respectively (see Note 5).

#### *Estimating Impairment of Property and Equipment, Investment Properties, Input VAT and Other Noncurrent Assets*

The Group assesses impairment of an asset 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 future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

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 arise 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 losses on property and equipment, investment properties, input VAT and other noncurrent assets were recognized for each of the three years in the period ended June 30, 2016. The aggregate net book values of property and equipment, investment properties, input VAT and other noncurrent assets amounted to ₱33,129,913 and ₱21,890,790 as of June 30, 2016 and December 31, 2015, respectively (see Notes 6 and 7).

#### *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 June 30, 2016 and December 31, 2015, the Group's retirement benefit asset amounted to ₱ 432,912 (see Note 14).

*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. Trade and Other Receivables**

	<b>June 30, 2016</b> <b>(Unaudited)</b>	Dec. 31, 2015 (Audited)
Trade	<b>₱6,894,639</b>	₱7,505,282
Advances to officers and employees and Others	<b>11,453,949</b>	11,138,381
	<b>18,348,588</b>	18,643,663
Less allowance for impairment losses	<b>(3,520,453)</b>	(3,520,453)
	<b>₱14,828,135</b>	₱15,123,210

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

The allowance for impairment losses is attributable to the individual and collective impairment of certain trade, advances to officers and employees and other receivables

amounting to ₱3,520,453 as of June 30, 2016 and December 31, 2015. No provision for impairment losses on trade and other receivables was recognized for the period ended June 30, 2016.

As of June 30, 2016 the aging analysis of unimpaired trade and other receivables is as follows:

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired	Total
		Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days		
<b>June 2016</b>	<b>₱3,665,594</b>	<b>₱709,117</b>	<b>₱88,734</b>	<b>₱91,578</b>	<b>₱10,273,112</b>	<b>₱3,520,453</b>	<b>₱18,348,588</b>
December 2015	2,993,848	1,211,705	498,661	281,078	10,137,918	3,520,453	18,643,663

## 5. 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:

	<b>Jun 30, 2016</b> <b>(Unaudited)</b>	Dec. 31, 2015 <b>(Audited)</b>
Acquisition cost	<b>₱21,948,203</b>	₱21,948,203
Accumulated equity in net earnings:		
Balances at beginning of year	<b>19,587,879</b>	17,346,690
Equity in net earnings	<b>(83,579)</b>	9,861,189
Dividends received	-	(7,620,000)
Balances at end of quarter/year	<b>19,504,300</b>	19,587,879
Share in CTA:		
Balances at beginning of year	<b>(695,039)</b>	(4,278)
Addition (reduction)	<b>432,948</b>	(690,761)
Balances at end of quarter/year	<b>(262,091)</b>	(695,039)
	<b>₱41,190,412</b>	₱40,841,043

The summarized financial information of ePI as of June 30, 2016, December 31, 2015 and 2014, are as follows (in thousands):

	<b>June 2016</b>	2015	2014
Current assets	<b>₱944,439</b>	₱979,952	₱870,586
Noncurrent assets	<b>521,125</b>	455,432	449,953
Current liabilities	<b>29,441</b>	358,142	282,986
Noncurrent liabilities	<b>29,441</b>	427	2,065
Revenues	<b>1,482,076</b>	3,150,405	2,771,283
Net Income	<b>(2,199)</b>	261,946	185,699

## 6. Property and Equipment

### June 30, 2016

	Furniture, Fixtures and Equipment	Internet Equipment	Total
<b>Cost:</b>			
Balances at beginning of year	P342,280	P30,883,733	P31,226,013
Additions	-	15,288,064	15,288,064
<b>Balances at end of year</b>	<b>342,280</b>	<b>46,171,797</b>	<b>46,514,077</b>
<b>Accumulated depreciation:</b>			
Balances at beginning of year	321,641	16,933,173	17,254,814
Depreciation (see Notes 10 and 11)	17,691	1,433,287	1,450,978
<b>Balances at end of year</b>	<b>339,332</b>	<b>18,366,460</b>	<b>18,705,792</b>
<b>Net book values</b>	<b>P2,948</b>	<b>P27,805,337</b>	<b>P27,808,285</b>

### December 31, 2015

	Furniture, Fixtures and Equipment	Internet Equipment	Total
<b>Cost:</b>			
Balances at beginning of year	P342,280	P16,566,257	P16,908,537
Additions	-	14,317,476	14,317,476
<b>Balances at end of year</b>	<b>342,280</b>	<b>30,883,733</b>	<b>31,226,013</b>
<b>Accumulated depreciation:</b>			
Balances at beginning of year	286,259	16,395,422	16,681,681
Depreciation (see Notes 10 and 11)	35,382	537,751	573,133
<b>Balances at end of year</b>	<b>321,641</b>	<b>16,933,173</b>	<b>17,254,814</b>
<b>Net book values</b>	<b>P20,639</b>	<b>P13,950,560</b>	<b>P13,971,199</b>

Cost of fully depreciated property and equipment which are still being used in the operation amounted to P16,337,758 and P16,335,094 as of June 30, 2016 and December 31, 2015.

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

	<b>Period Ended June 30</b>		
	2016	2015	2014
Costs of services (see Note 10)	<b>P1,384,648</b>	P113,566	P1,144,050
General and administrative expenses (see Note 11)	<b>66,330</b>	56,488	57,050
	<b>P1,450,978</b>	P170,054	P1,201,100

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## 7. 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 amounting to ₱2,081,535 as of June 30, 2016 and December 31, 2015. The relative fair market value of these properties amounted to ₱6,134,100 as of June 30, 2016 and December 31, 2015, based on the assessment of market conditions by an independent appraiser.

In determining the appropriate class of investment properties, the Group has considered the nature, characteristics and risks 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 2 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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## 8. Trade and Other Payables

	<b>June 30, 2016</b> <b>(Unaudited)</b>	Dec. 31, 2015 (Audited)
Trade	<b>₱2,526,040</b>	₱4,146,276
Accrued expenses	<b>2,646,597</b>	1,611,499
Others	<b>4,921,279</b>	4,118,096
	<b>₱10,093,917</b>	₱9,875,871

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

Advances and deposits consist mainly of deposits received from customers for information and communications support and services.

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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## 9. Capital Stock

The Group has 300,000,000 authorized common stock with ₱1 par value per share, of which 150,000,000 shares are issued and outstanding as of December 31, 2015 and 2014.

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 Group for every 8 shares currently held by them. The proceeds will be utilized to fund the expansion and enhancement of the Group'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, all 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 Group to list additional 46,570,025 common shares with a par value of ₱1.00 per share to cover the private placement by TVI at a subscription price at par.

Based on the Group's track record of registration of securities under the Securities Regulation Code of the Philippine SEC, the Group 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). There were no movements in the Group's registered securities during the years ended December 31, 2015 and 2014.

As of June 30, 2016, there are 297 shareholders who hold 150,000,000 shares.

#### 10. Costs of Services

	Period Ended June 30		
	2016	2015	2014
Cost of lease/line subscriptions	<b>₱8,317,789</b>	₱5,610,990	₱5,385,946
Service and maintenance fee	<b>3,899,849</b>	—	—
Employee-related (see Note 12)	<b>2,727,184</b>	1,893,130	1,708,207
Depreciation (see Note 6)	<b>1,384,648</b>	113,566	1,144,050
	<b>₱16,329,469</b>	₱7,617,686	₱8,238,203

#### 11. General and Administrative Expenses

	Period Ended June 30		
	2016	2015	2014
Management and consultancy fees	<b>1,726,735</b>	1,651,819	1,168,927
Rent and utilities	<b>624,606</b>	559,205	423,156
Taxes and licenses	<b>401,822</b>	288,270	298,680
Subscription dues	<b>375,970</b>	780,271	830,625
Others	<b>326,868</b>	559,442	253,530
Storage and other charges	<b>287,336</b>	—	—
Ads and promotions	<b>252,377</b>	—	—
Professional fees	<b>216,250</b>	191,581	200,333
Employee-related	<b>215,237</b>	275,446	264,531
Representation	<b>149,977</b>	92,149	—
Materials and Supplies	<b>91,658</b>	28,558	—
Seminars and trainings	<b>69,313</b>	236,347	119,614
Depreciation (see Note 6)	<b>66,330</b>	56,488	57,050
Transportation and travel	<b>39,902</b>	23,060	11,145
Communications	<b>23,573</b>	24,673	333,082
Repairs and maintenance	<b>9,965</b>	16,600	29,806
Office supplies	—	42,247	36,408
	<b>₱4,877,919</b>	₱4,826,156	₱4,026,887

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## 12. Employee-related Expenses

	Period Ended June 30		
	2016	2015	2014
Salaries and wages	<b>₱1,894,063</b>	₱1,985,380	₱1,472,842
Other employees benefits	<b>1,048,358</b>	183,196	499,897
	<b>₱2,942,421</b>	₱2,168,576	₱1,972,739

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

	Period Ended June 30		
	2016	2015	2014
Costs of services (see Note 10)	<b>₱2,727,184</b>	₱1,893,130	₱1,708,208
General and administrative expenses (see Note 11)	<b>215,237</b>	275,446	264,531
	<b>₱2,942,421</b>	₱2,168,576	₱1,972,739

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## 13. 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.) Unsecured intercompany balances represent noninterest-bearing cash advances from TVI, a stockholder, presented as Advances from a stockholder, amounting to ₱16,310,284 as of June 30, 2016 for working capital requirements.
- b.) Compensation of key management personnel of the Group.
- c.) Participation by the Group in the Transnational Diversified Group of Companies Retirement Plan (the Group Plan see Note 14).

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## 14. 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 credited 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 Group. The funds are administered by the Retirement Committee appointed by the BOD of the participating companies. The Retirement Committee is responsible for the investing decisions of the 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, Republic Act 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:

	<b>2015</b>	2014
Cash and cash equivalents	<b>47%</b>	47%
FVPL investments	<b>16%</b>	16%
Investment in pension trust	<b>11%</b>	13%
Others	<b>26%</b>	24%

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

- Cash and cash equivalents, which includes regular savings and time deposits;
- FVPL investments, which includes marketable securities;
- Investment in pension trust, which represents a pension policy plan from TPI, an entity under common control, with trust funds that are managed by a trustee bank as per regulations of the Philippine SEC;
- Other investments.

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

	<b>2015</b>	2014
Discount rate	<b>5.05%</b>	4.73%
Retirement date	<b>Age 60 and 10 years of credited service</b>	Age 60 and 10 years of credited service
Future wage and salary rate increases	<b>5.00%</b>	5.00%
Turnover rate	<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, 2015 and 2014, assuming all other assumptions were held constant:

	<b>Basis Points</b>	<b>Increase (Decrease)</b>	
		<b>2015</b>	2014
Discount rate	<b>+100</b>	<b>(P114,300)</b>	(P74,000)
	<b>-100</b>	<b>147,700</b>	95,800
Future wage and salary rate increases	<b>+100</b>	<b>142,300</b>	91,500
	<b>-100</b>	<b>(112,800)</b>	(72,700)

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 Retirement Committee reviews the performance of the Group Plan on a regular basis. It assesses whether the Group plan will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group also reviews the solvency position of the different participating companies on an annual basis and estimates, through the actuary, the expected contribution to the Group Plan in the subsequent year.

The Group does not expect to contribute to the Group Plan in 2016.

The average duration of the defined benefit obligation as of December 31, 2015 and 2014 are 29.05 and 28 years, respectively.

The maturity analysis of the undiscounted benefit payments as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	2014
More than 10 years but less than 15 years	<b>₱79,928</b>	₱36,444
More than 15 years but less than 20 years	<b>1,171,077</b>	104,606
More than 20 years	<b>15,649,250</b>	11,324,050

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## 15. Income Taxes

For each of the three years in the period ended June 30, 2016, the provision for current income tax represents the Group's MCIT and e-Serve's regular corporate income tax.

As of June 30, 2016 and December 31, 2015, the Group's deferred income tax liability on unrealized foreign exchange gains amounted to ₱7,290 and ₱45,921, respectively. Consequently, the Group recognized deferred income tax asset on carryforward benefit of unused NOLCO to the extent of its deferred income tax liability.

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

	2016	2015
Deferred income tax liabilities recognized in profit or loss:		
Retirement benefit asset	P-	P-
Unrealized foreign exchange gains	-	-
Deferred income tax liability on accumulated remeasurement gains on defined benefit plan recognized in other comprehensive income	148,707	148,707
	<b>148,707</b>	<b>148,707</b>
Deferred income tax assets recognized in profit or loss:		
Retirement benefit obligation	21,679	18,834
Unrealized forex loss (gain)	(7,290)	2,845
	<b>14,389</b>	<b>21,679</b>
<b>Net deferred income tax liabilities</b>	<b>P134,318</b>	<b>P127,028</b>

As of June 30, 2016 and December 31, 2015, 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:

	2016	2015
Allowance for impairment losses	P3,520,453	P3,520,453
NOLCO	434,274	175,637
MCIT	176,656	217,922
	<b>P4,131,383</b>	<b>P3,914,012</b>

As of June 30, 2016, the Group's unused NOLCO and excess MCIT that can be claimed as deductions against future taxable income and future income tax liabilities, respectively, are as follows:

Year incurred	Available up to	NOLCO	MCIT
2016	2019	P426,605	P1,761
2015	2018	-	112,438
2014	2017	-	62,457
		<b>P426,605</b>	<b>P176,656</b>

Movements in NOLCO are as follows:

	2016	2015
Balances at beginning of year	P2,383,956	P2,383,956
Additions	426,605	-
Applied against regular corporate income tax (RCIT)	(2,055,250)	(2,055,250)
Expiration	(328,706)	-
<b>Balances at end of year</b>	<b>P426,605</b>	<b>P328,706</b>

Movements in excess MCIT are as follows:

	2016	2015
Balances at beginning of year	<b>₱217,922</b>	₱131,149
Additions	<b>1,761</b>	112,438
Expirations	<b>(43,027)</b>	(25,665)
Balances at end of year	<b>₱176,656</b>	₱217,922

The movements in deferred income tax asset and liabilities during the years ended December 31, 2015 and 2014 are as follows:

	Deferred Income Tax Assets	Deferred Income Tax Liabilities
Balances at January 1, 2014	₱–	₱160,639
Recognized in:		
Profit or loss	–	(27,824)
Other comprehensive income	–	57,815
Balances at December 31, 2014	–	190,630
Recognized in:		
Profit or loss	21,679	(7,652)
Other comprehensive income	–	(34,271)
Balances at December 31, 2015	<b>₱21,679</b>	<b>₱148,707</b>

The reconciliation of income tax computed at the statutory tax rate to provision for income tax is as follows:

	June 2016	Dec 2015	Dec 2014
Income tax at statutory tax rate of 30%	<b>₱515,817</b>	₱4,107,767	₱3,100,311
Additions to (reductions from) income tax resulting from:			
Nondeductible expenses		64,784	600
Equity in net earnings of an associate	<b>(25,074)</b>	(2,986,185)	(2,116,975)
Changes in unrecognized deferred income taxes	<b>(343,073)</b>	(520,796)	(67,472)
Interest income subjected to final tax	<b>(5,661)</b>	(10,503)	(43,314)
	<b>₱142,009</b>	₱655,067	₱873,150

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## 16. Earnings Per Share

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

Basic and diluted earnings per share:

	<b>June 2016</b>	Dec 2015	Dec 2014
Net income	<b>₱1,577,381</b>	₱13,037,491	₱9,461,220
Divided by weighted average number of outstanding shares	<b>150,000,000</b>	150,000,000	150,000,000
<b>Basic and diluted earnings per share</b>	<b>₱0.01</b>	₱0.09	₱0.06

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## 17. 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 period ended June 30, 2016, December 31, 2015 and 2014 (in thousands):

## June 2016

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and Eliminations	Consolidated
Service income	₱23,003	₱1,482,076	₱1,505,079	₱1,482,076	₱23,003
Costs of services	16,329	57,289	73,618	57,289	16,329
Gross profit	6,673	1,424,787	1,431,460	1,424,787	6,673
General and administrative expenses	(4,878)	(1,423,947)	(1,428,825)	(1,423,947)	(4,878)
Equity in net earnings of an associate	(84)		(84)	-	(84)
Other income – net	8	(143)	(135)	(143)	8
Income before income tax	1,719	698	2,417	698	1,719
Provision for (benefit from) income taxes					
Current	135	2,897	3,032	2,897	135
Deferred	7		7	-	7
	142	2,897	3,039	2,897	142
Net income	1,577	(2,199)	(622)	(2,199)	1,577
Operating assets	49,333	1,233,202	1,282,535	1,233,202	49,333
Operating liabilities	10,094	294,081	304,175	294,081	10,094
Investment in an associate	41,190	-	41,190	-	41,190
Capital expenditures	₱15,288,064	(₱30,522)	₱15,257,542	(₱30,522)	₱15,288,064

## 2015

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and Eliminations	Consolidated
Service income	₱31,393	₱3,150,405	₱3,181,798	₱3,150,405	₱31,393
Costs of services	17,207	2,734,552	2,751,759	2,734,552	17,207
Gross profit	14,186	415,853	430,039	415,853	14,186
General and administrative expenses	(10,536)	(163,641)	(174,177)	(163,641)	(10,536)
Equity in net earnings of an associate	9,954	-	9,954	-	9,954
Other income - net	88	33,666	33,754	33,666	88
Income before income tax	13,693	285,878	299,571	285,878	13,693
Provision for (benefit from) income taxes					
Current	684	24,052	24,736	24,052	684
Deferred	(29)	(120)	(149)	(120)	(29)
	655	23,932	24,587	23,932	655
Net income	13,037	261,946	274,983	261,946	13,037
Operating assets	34,448	1,279,052	1,313,500	1,279,052	34,448
Operating liabilities	9,876	308,221	318,097	308,221	9,876
Investment in an associate	40,841	-	40,841	-	40,841
Capital expenditures	₱9,978	₱201,683	₱211,661	₱201,683	₱9,978

2014

	Information Technology Services	Contact Center Outsourcing Business	Total Segments	Adjustments and Eliminations	Consolidated
Service income	₱28,364	₱2,771,283	₱2,799,647	₱2,771,283	₱28,364
Costs of services	15,527	2,443,277	2,458,804	2,443,277	15,527
Gross profit	12,837	328,006	340,843	328,006	12,837
General and administrative expenses	(9,741)	(143,871)	(153,612)	(143,871)	(9,741)
Equity in net earnings of an associate	7,057	–	7,057	–	7,057
Other income - net	182	6,774	6,956	6,774	182
Income before income tax	10,335	190,909	201,244	190,909	10,335
Provision for (benefit from) income taxes					
Current	901	5,358	6,259	5,358	901
Deferred	(28)	(148)	(176)	(148)	(28)
	873	5,210	6,083	5,210	873
Net income	₱9,462	₱185,699	₱195,161	₱185,699	₱9,462
Operating assets	₱37,043	₱1,158,613	₱1,195,656	₱1,158,613	₱37,043
Operating liabilities	₱5,239	₱254,880	₱260,119	₱254,880	₱5,239
Investment in an associate	₱39,291	₱–	(₱36,332)	₱–	₱39,291
Capital expenditures	₱101	₱200,778	₱200,879	₱200,778	₱101

Capital expenditures consist of additions to property and equipment.

## 18. 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 June 30, 2016 and December 31, 2015 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 June 30, 2016 and December 31, 2015.

#### *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 June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015, 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.

#### *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.

Based on the Group's assessment, the carrying amounts of cash and cash equivalents and trade and other receivables as of June 30, 2016 and December 31, 2015 are readily available for liquidity purposes. The Group's trade and other payables and advances from a stockholder as of June 30, 2016 and December 31, 2015 are either due within one year or due and demandable.

#### 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 June 30, 2016 and December 31, 2015.

The Group considers the following as its core capital:

	<b>June 2016</b>	Dec 2015
Capital stock	<b>₱150,000,000</b>	₱150,000,000
Deficit	<b>(23,744,903)</b>	(25,322,284)
	<b>₱126,255,097</b>	₱124,677,716