

ALLSECTECH MANILA, INC.
(A Wholly-Owned Subsidiary of ALLSEC TECHNOLOGIES LTD.)
NOTES TO FINANCIAL STATEMENTS

1. COMPANY INFORMATION

Allsectech Manila, Inc. (the "Company") is primarily engaged in the business of business process outsourcing including contact center operations. It is also engaged in trading information technology related goods and services on wholesale or retail basis. Goods such as computer equipment, software and operating systems, services such as programming, consultation, systems and administration and deployment, managing information services, creating consumer software applications, building enterprise applications, integrating independent solutions, and data warehousing.

On October 3, 2007, all of the Company's equity holders signed a share purchase agreement with Allsec Technologies, Ltd., (the "Parent"), a foreign company, thereby transferring all their respective shares to the latter. Accordingly, the Company's management has changed.

The Company is a wholly-owned subsidiary of Allsec Technologies, Ltd. (the "Parent Company"), a publicly-listed company based in Chennai, India. It is an integrated contact third party management services center which offers both voice and non-voice services.

The Company's principal address is 3/F Market Market!, Bonifacio Global City Taguig City, Metro Manila.

The financial statements as at and for the years ended March 31, 2016 and 2015 were approved and authorized for issuance by the Board of Directors (BOD) on May 10, 2016.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso, the Company's functional currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

Moreover, the financial statements have been prepared in compliance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting and reporting policies that have been used in the preparation of the financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basic Financial Instruments

The Company recognizes a financial asset and a financial liability only when the Company becomes a party to the contractual provisions of the instruments.

When a financial asset or financial liability is recognized initially, the Company measures it at the transaction price and subsequently measures it at amortized cost using the effective interest method.

Cash. Cash includes cash on hand and in banks stated at face amount. Cash in banks earn interest at the prevailing bank deposit rates.

Trade and other Receivables. Trade and other receivables are recognized initially at the transaction price including transaction costs. These are subsequently measured at amortized cost, less any allowance for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts payable and accrued expenses. Accounts payable and accrued expenses (excluding statutory payables) are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

Value-added tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except receivables and payables that are stated with the amount of VAT included.

The amount of VAT recoverable from the taxation authority is included as part of "Trade and other payables" account in the statements of financial position.

Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its members.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the asset as follows:

Asset	Years
Computer and information technology (IT) equipment	2 to 3 years
Furniture and fixtures	3 to 5 years
Transportation equipment	3 to 5 years

The assets' useful lives and depreciation method are reviewed if there is an indication of a significant change since the last reporting date and adjusted prospectively, if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Capital Stock

Capital stock is measured at par value for all shares issued.

Retained Earnings

Retained earnings pertain to cumulative net income or loss, net of any dividend declaration.

Revenue and Cost Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue and related cost of services are recognized upon rendering of service.

Leases

Company as Lessor. Leases where the Company retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognized as an income in profit or loss using straight-line basis over the lease term.

Company as Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss using straight-line basis over the lease term.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is recognized on all temporary differences at the reporting date between the carrying amount of the assets and liabilities in the financial statements and their corresponding tax bases. Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable income in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable income in the future.

The carrying amount of deferred tax assets is reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable income.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable income (tax loss) of the period in which it expects the deferred tax assets to be realized or the deferred tax liabilities to be settled, on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Provisions

Provisions are recognized when the Company 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 obligations and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

4. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Operating Lease Commitments - Company as Lessor. The Company has entered into property leases. The Company has determined that the significant risks and rewards of ownership of this property are not transferred to the lessees under the operating lease arrangement. Accordingly, the lease arrangement is considered as operating lease.

Rent income from operating leases amounted to P 39,247,569 and P 33,717,389 as at March 31, 2016 and 2015, respectively (see Note 13).

Operating Leases - Company as Lessee. The Company has entered into various lease agreements as a lessee. The Company has determined that the lessor retains all significant risks and benefits of ownership of these properties, which are leased out under operating lease arrangements. Accordingly, these leases are accounted for as operating leases.

Rent expense amounted to P 20,559,450 and P 19,635,582 as at March 31, 2016 and 2015, respectively (see Note 11 and 12).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for Impairment of Trade and Other Receivables

The Company maintains allowance for impairment of trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the Company's relationship with its clients, client's current credit status and other known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Company made different assumptions or utilized different estimates. An increase in the Company's allowance for impairment of receivables will increase the Company's recorded expenses and will decrease current assets.

Estimating Useful Lives of Property and Equipment. The Company estimates the useful lives of property and equipment based on the economic lives of property and equipment. The estimated useful lives of property and equipment are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. However, it is possible that future results or operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the noncurrent assets.

5. CASH

This account consists of:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Cash on hand	P 7,500	P 7,500
Cash in bank	<u>30,581,133</u>	<u>16,667,414</u>
Total	<u>P 30,588,633</u>	<u>P 16,674,914</u>

Cash in bank earns interest at the prevailing bank deposit rate. Interest income earned amounted to P 62,363 and P 29,367 as at March 31, 2016 and 2015, respectively.

6. TRADE AND OTHER RECEIVABLES

This account is broken down as follows:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Trade	P 19,452,896	P 11,968,760
Advances to officers and employees	-	172,372
Advances for liquidation	<u>167,510</u>	<u>7,026,891</u>
Total	<u>P 19,620,406</u>	<u>P 19,168,023</u>

Trade receivables are noninterest-bearing and are collectible within 90 days.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

As of March 31, this account consists of:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Prepaid rent	P 2,658,763	P 2,658,763
Prepaid insurance	79,804	76,743
Prepaid medical	94,723	62,746
Others (see also Note 16)	<u>9,319</u>	<u>6,300</u>
Total	<u>P 2,842,609</u>	<u>P 2,804,552</u>

Other current assets include other prepayments and input tax.

8. PROPERTY AND EQUIPMENT

Reconciliation of cost and accumulated depreciation as of March 31 is as follows:

March 31, 2016				
	Computer and IT Equipment	Furniture and Fixtures	Leasehold Improvement	Totals
Cost				
Balance at beginning of year	P 65,226,904	P 15,584,210	P 44,163,953	P 124,975,067
Additions	<u>1,388,662</u>	<u>457,276</u>	<u>-</u>	<u>1,845,938</u>
Balance at end of year	<u>66,615,566</u>	<u>16,041,486</u>	<u>44,163,953</u>	<u>126,821,005</u>
Accumulated Depreciation				
Balance at beginning of year	64,075,051	15,227,082	44,163,953	123,466,086
Depreciation (see also Note 11 and 12)	<u>724,792</u>	<u>320,149</u>	<u>-</u>	<u>1,044,941</u>
Balance at end of year	<u>64,799,844</u>	<u>15,547,231</u>	<u>44,163,953</u>	<u>124,511,028</u>
Net Book Value	<u>P 1,815,722</u>	<u>P 494,255</u>	<u>P -</u>	<u>P 2,309,976</u>
March 31, 2015				
	Computer and IT Equipment	Furniture and Fixtures	Leasehold Improvement	Totals
Cost				
Balance at beginning of year	P 64,241,950	P 15,212,487	P 44,163,953	P 123,618,390
Additions	<u>984,954</u>	<u>371,723</u>	<u>-</u>	<u>1,356,677</u>
Balance at end of year	<u>65,226,904</u>	<u>15,584,210</u>	<u>44,163,953</u>	<u>124,975,067</u>
Accumulated Depreciation				
Balance at beginning of year	62,930,394	15,078,459	44,163,953	122,172,806
Depreciation (see also Note 11 and 12)	<u>1,213,139</u>	<u>148,623</u>	<u>-</u>	<u>1,361,762</u>
Balance at end of year	<u>64,143,533</u>	<u>15,227,082</u>	<u>44,163,953</u>	<u>123,534,568</u>
Net Book Value	<u>P 1,083,371</u>	<u>P 357,128</u>	<u>P -</u>	<u>P 1,440,499</u>

9. OTHER NON-CURRENT ASSETS

As of March 31, this account consists of:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Security deposits	P 6,087,416	P 5,043,192
Sinking fund	<u>3,881,521</u>	<u>-</u>
Total	<u>P 9,968,937</u>	<u>P 5,043,192</u>

Sinking fund is set up for future payment of dividends for the 2% Cumulative, Non- participating Preferred shares as the retained earnings become positive.

10. TRADE AND OTHER PAYABLES

This account is broken down as follows:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Accounts payable	P 265,511	P -
Security deposit	9,740,000	9,740,000
13 th Month	1,623,977	1,417,635
Statutory liabilities	959,474	1,183,569
Sick leave encashment	592,962	463,617S
Unearned income	<u>-</u>	<u>5,076,261</u>
Total	<u>P 14,869,200</u>	<u>P 20,412,414</u>

Statutory liabilities include Social Security System(SSS), Philippine Health Insurance Corporation(PHIC), and Home Development Mutual Fund(HDMF) payable, Output VAT and withholding taxes.

Security deposit pertains to advance deposits received from the lessees.

Unearned income pertains to advance payments made from customers that was earned during the current year.

11. COST OF SERVICES

Break down of this account is as follows:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Salaries and benefits	P 65,673,953	P 46,393,816
Rent	19,490,503	18,747,161
Utilities and communication	12,551,590	10,787,429
Depreciation (see also Note 8)	<u>724,792</u>	<u>1,213,139</u>
Total	<u>P 98,440,838</u>	<u>P 77,141,545</u>

12. GENERAL AND ADMINISTRATIVE EXPENSES

This account is broken down as follows:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Salaries and allowances	P 11,576,245	P 8,478,902
Professional fee	4,726,542	3,848,355
Common area charges	4,609,577	4,980,164
Transportation and travel	2,844,785	1,950,699
Repairs and maintenance-labor	2,568,450	1,858,389
Medical	2,412,528	1,473,528
Security	1,741,214	1,471,449
Representation	1,288,783	507,608
Rental	1,068,947	888,421
Janitorial	932,439	880,598
Penalties	418,261	-
SSS, HDMF, PHIC	328,269	243,039
Office supplies	325,008	198,171
Depreciation (see also Note 8)	320,149	148,623
Communication, light and water	311,543	303,837
Taxes and licenses (see also Note 16)	242,403	203,750
Insurance	234,210	149,625
Bad debts	125,000	1,416,353
Bank charges	70,041	83,313
Miscellaneous	631	971
Advertising and promotions	-	833,336
Trainings	-	2,992
Others	<u>435,152</u>	<u>-</u>
Total	<u>P 36,580,177</u>	<u>P 29,922,123</u>

13. RELATED PARTY TRANSACTIONS

The Company has the following transactions with the related parties:

	Amount of Transactions		Outstanding Balances	
	31-Mar-16	31-Mar-15	31-Mar-16	31-Mar-15
Due from related parties				
Advances to affiliates	P 1,676,765	-	P 7,991,823	P 6,315,058
Due to related parties				
Advances from affiliates	P 4,437,026	-	P 4,437,026	P -
Due from (to) related parties	(P 2,760,261)	-	P 3,554,797	P 6,315,058

Advances from related parties are used for working capital requirements and operations of the Company and are non- interest bearing.

14. PREFERENCE SHARE REDEMPTION

	March 31, 2016		
	Shares	Par Value	Amount
Balance at beginning of year	P 107,882,171	P 1	P 107,882,171
Partial redemption during the year	(23,451,000)	1	(23,451,000)
Balance at end of year	<u>P 84,431,171</u>	<u>P 1</u>	<u>P 84,431,171</u>
	March 31, 2015		
	Shares	Par Value	Amount
Balance at beginning of year	P 107,882,171	P 1	P 107,882,171
Partial redemption during the year	-	-	-
Balance at end of year	<u>P 107,882,171</u>	<u>P 1</u>	<u>P 107,882,171</u>

Partial redemption of preference shares decreased the issued shares and preference capital by 23,451,000.

15. INCOME TAXES

The Company is a registered with the Philippine Economic Zone Authority (PEZA). Under Section 24 of Republic Act No. 7916, no national and local taxes shall be imposed on registered business enterprises within the Economic Zone (ECOZONE). In lieu of the said taxes, a five percent (5%) tax on gross income shall be paid by all registered business enterprises within the economic zone and shall be directly remitted as follows: three percent (3%) to the National Government, one percent (1%) to the local government units affected by the declaration of the ECOZONE in proportion to their population, land area, and equal sharing factors; and one percent (1%) for the establishment of a development fund to be utilized for the development of municipalities outside and contiguous to each ECOZONE.

		<u>March 31, 2016</u>
Total revenue	P	185,667,866
less: Cost of service (see also Note 16)		<u>98,440,838</u>
Taxable income		87,227,028
Tax due to BIR	3%	2,616,809
Less: previous payments		<u>1,901,339</u>
Payable to BIR		715,470
Tax due to local government	2%	1,744,541
Less: previous payments		<u>1,267,559</u>
Payable to BIR		476,982
Total income tax payable		1,192,452
Less: Creditable tax from 2307		<u>5,612</u>
Income tax due	P	<u>1,186,840</u>

16. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Revenue Regulations No. 15-2010

The information for March 31, 2016 as required by the above regulations is presented below:

Output and Input value-added tax (VAT)

The Company being a PEZA registered enterprises enjoys certain privileges under the tax code which includes zero rating of VAT on its export sale of services and as long it maintains the seventy percent (70%) to thirty percent (30%) ratio of export sales to local sales in accordance with PEZA rules and regulations which coincides with the tax rules and regulations.

	<u>March 31, 2016</u>	
Output VAT (see also Note 10)	P	26,321
Less: Input VAT (see also Note 7)		<u>3,019</u>
Net VAT Payable	P	<u>23,302</u>

Withholding taxes

Withholding tax payable as at March 31, 2016 is as follows (see also Note 10):

	<u>March 31, 2016</u>	
Compensation	P	198,675
Expanded		<u>113,136</u>
Total	P	<u>311,811</u>

All other local and national taxes

The Company has paid taxes and licenses amounted to P 242,403 pertaining to registration with SEC, BIR and local government unit (see also Note 12).

Tax assessments and cases

The Company has no outstanding tax assessments and tax cases as at March 31, 2016.

Revenue Regulations No. 2-2014

The BIR issued RR No. 2-2014 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2014 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the March 31, 2016 statement of comprehensive income.

Taxable Income

As at March 31, 2016, the Company earned taxable revenue amounting to P 185,667,866 (see also Note 15).

Cost of Services

The Company's cost of services for the year amounted to P 98,440,838 (see also Note 15 and 11).