C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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C O M P A N Y   N A M E

FLUXION, INC. AND SUBSIDIARY

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

UNIT 2501 THE TRADE AND FINANCIAL TOWER, 32ND ST. COR. 7TH AVE., BONIFACIO GLOBAL CITY, TAGUIG

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS	SEC	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
business@fluxion.com.ph	808-9694	0917-575-5359

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
6	3/8	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Raymond Gerard S. Racaza	raymond@xurpas.com	889-6467	N/A

CONTACT PERSON's ADDRESS

7th Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Fluxion, Inc.
Unit 2501 The Trade and Financial Tower, 32nd St. cor. 7th Ave.
Bonifacio Global City, Taguig

We have audited the accompanying interim consolidated financial statements of Fluxion, Inc. and its Subsidiary which comprise the interim consolidated statements of financial position as of August 31, 2016 and December 31, 2015, and the interim consolidated statements of comprehensive income, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for the eight-month periods ended August 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the interim consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the interim consolidated financial statements present fairly, in all material respects, the financial position of Fluxion, Inc. and its Subsidiary as of August 31, 2016 and December 31, 2015, and their financial performance and their cash flows for the eight-month periods ended August 31, 2016 and 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321616, January 4, 2016, Makati City

October 7, 2016

FLUXION, INC. AND SUBSIDIARY
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	August 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash (Notes 4 and 19)	**₱8,093,182**	₱8,024,138
Receivables (Notes 5, 14 and 19)	**48,304,290**	31,841,269
Other current assets (Note 6)	**9,627,896**	2,199,946
Total Current Assets	**66,025,368**	42,065,353
Noncurrent Assets		
Property and equipment (Note 7)	**771,874**	1,496,674
Intangible assets (Note 8)	**7,879,926**	–
Other noncurrent assets (Note 6)	**3,243,465**	–
Total Noncurrent Assets	**11,895,265**	1,496,674
	₱77,920,633	₱43,562,027
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 9, 14, 19 and 20)	**₱21,084,642**	₱5,784,154
Dividends payable (Note 14 and 19)	**13,510,000**	–
Income tax payable	**7,653,628**	3,019,136
Total Current Liabilities	**42,248,270**	8,803,290
Noncurrent Liabilities		
Deferred tax liabilities - net (Note 15)	**3,148,388**	6,560,898
Pension liability (Note 16)	**5,151,159**	10,582,895
Total Noncurrent Liabilities	**8,299,547**	17,143,793
Total Liabilities	**50,547,817**	25,947,083
Equity		
Capital stock (Note 17)	**4,593,714**	4,593,714
Additional paid-in capital (Note 17)	**485,667**	485,667
Retained earnings (Note 17)	**8,590,094**	14,564,748
Equity reserve (Note 20)	**16,329,536**	–
Remeasurement loss on defined benefit plan (Note 16)	**(2,626,195)**	(2,029,185)
Total Equity	**27,372,816**	17,614,944
	₱77,920,633	₱43,562,027

See accompanying Notes to Interim Consolidated Financial Statements.

FLUXION, INC. AND SUBSIDIARY

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE EIGHT-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
INCOME		
Service income (Note 10)	**₱32,074,233**	₱33,450,167
Interest income (Note 4)	**26,405**	49,285
Other income (Note 16)	**6,285,792**	4,665,317
	38,386,430	38,164,769
COST AND EXPENSES		
Cost of services (Note 11)	**14,968,056**	16,620,588
General and administrative expenses (Note 12)	**10,382,952**	7,761,707
	25,351,008	24,382,295
INCOME BEFORE INCOME TAX	**13,035,422**	13,782,474
PROVISION FOR INCOME TAX (Note 15)	**5,010,076**	4,187,485
NET INCOME	**8,025,346**	9,594,989
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on defined benefit plan (Note 16)	**(852,872)**	1,935,269
Tax effect relating to components of other comprehensive income	**255,862**	(580,581)
	(597,010)	1,354,688
TOTAL COMPREHENSIVE INCOME	**₱7,428,336**	₱10,949,677
Basic/Diluted Earnings Per Share (Note 18)	**₱1.75**	₱2.09

See accompanying Notes to Interim Consolidated Financial Statements.

FLUXION, INC. AND SUBSIDIARY

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE EIGHT-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CAPITAL STOCK (Note 17)		
Authorized - 5,000,000 shares		
Issued and outstanding - 4,593,714 shares		
Balance at beginning and end of period	**₱4,593,714**	₱4,593,714
ADDITIONAL PAID-IN CAPITAL (Note 17)		
Balance at beginning and end of period	**485,667**	485,667
RETAINED EARNINGS (Note 17)		
Appropriated		
Balance at January 1	**14,000,000**	30,000,000
Release from appropriation	**(14,000,000)**	(25,000,000)
Balance at August 31	**–**	5,000,000
Unappropriated		
Balance at January 1	**564,748**	991,453
Cash dividend declaration	**(14,000,000)**	(25,000,000)
Net income	**8,025,346**	9,594,989
Release from appropriation for dividend declaration	**14,000,000**	25,000,000
Balance at August 31	**8,590,094**	10,586,442
	8,590,094	15,586,442
EQUITY RESERVE (Note 20)		
Effect of pooling of interest	**16,329,536**	–
REMEASUREMENT LOSS ON DEFINED BENEFIT PLAN (Note 16)		
Balance at January 1	**(2,029,185)**	(3,889,431)
Movement during the period	**(597,010)**	1,354,688
Balance at August 31	**(2,626,195)**	(2,534,743)
	₱27,372,816	₱18,131,080

See accompanying Notes to Interim Consolidated Financial Statements.

FLUXION, INC. AND SUBSIDIARY

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE EIGHT-MONTH PERIODS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱13,035,422**	₱13,782,474
Adjustments for:		
Depreciation and amortization (Notes 7 and 8)	**772,492**	1,225,731
Unrealized foreign exchange loss	**–**	1,065
Interest income	**(26,405)**	(49,285)
Pension expense (gain on curtailment) (Note 16)	**(6,284,608)**	1,524,110
Income before changes in working capital	**7,496,901**	16,484,095
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(3,829,051)**	8,443,142
Other current assets	**3,473,042**	(245,860)
Decrease in accounts and other payables	**(3,611,182)**	(6,030,266)
Net cash generated from operations	**3,529,710**	18,651,111
Interest received	**26,405**	49,285
Income tax paid	**(5,718,633)**	(6,846,760)
Net cash provided by (used in) operating activities	**(2,162,518)**	11,853,636
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from business combination (Note 20)	**2,721,562**	–
Acquisitions of property and equipment	**–**	(526,752)
Cash provided by (used in) investing activities	**2,721,562**	(526,752)
CASH FLOW FROM FINANCING ACTIVITY		
Dividends paid (Note 17)	**(490,000)**	(10,000,000)
NET INCREASE IN CASH	**69,044**	1,326,884
EFFECT OF EXCHANGE RATE CHANGES IN FOREIGN CURRENCY ON CASH	**–**	(1,065)
CASH AT BEGINNING OF PERIOD	**8,024,138**	23,149,180
CASH AT END OF PERIOD (Note 4)	**₱8,093,182**	₱24,474,999

See accompanying Notes to Interim Consolidated Financial Statements.

1. **Corporate Information**

a. Company Background

Fluxion, Inc. (the Parent Company) is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 21, 2001 primarily for the purpose of developing, producing, selling or dealing in products, goods, or services in connection with transmission, receiving or exchange of voice, data, video, or any form of communication whatsoever, and to purchase or otherwise acquire, own, hold, develop, and manage in pursuit of and related to its principal business, real and personal property of every kind and description and to possess and exercise in respect thereof, all the rights, powers and privileges of ownership.

The Parent Company's registered office address and principal place of business is at Unit 2501 The Trade and Financial Tower, 32nd St. cor. 7th Ave., Bonifacio Global City, Taguig.

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by Xurpas Inc. (the Ultimate Parent Company), a publicly-listed entity, of the remaining 35% interest in the Parent Company. The acquisition of the 35% interest resulted in the Parent Company being a wholly-owned subsidiary of the Ultimate Parent Company.

In a Termination Agreement dated August 22, 2016, the minority stockholders of the Parent Company acknowledged that they shall no longer be entitled to the right of First Refusal as defined in the Memorandum of Agreement previously executed between the Ultimate Parent Company and the minority stockholders.

On August 22, 2016, the Parent Company's Board of Directors (BOD) authorized the registration and/or use the name "Xeleb Technologies Inc." to replace the Parent Company's corporate name, subject to approval by the SEC.

On August 24, 2016, the BOD and stockholders approved the increase of authorized capital stock from ₱5.00 million to ₱100.00 million consisting of 4,000,000,000 common shares and the change of par value from ₱1.00 to ₱0.025 per share.

As of August 31, 2016, the above amendments on the articles of incorporation are still in the process of application and are subject for approval by the SEC.

b. Group Restructuring

Xeleb Inc. (the Subsidiary) is a domestic corporation registered with the Philippine SEC on June 2, 2015 primarily for the purpose of designing, developing, testing, building, marketing, distributing, maintaining, supporting, customizing, selling and/or re-selling applications, games, software, digital solutions, whether internet, mobile or other handheld applications, portals, hardware and other related products and services, except internet provider services, both for proprietary and custom development purposes.

On August 22, 2016, the BOD approved the acquisition of 3,350,000 shares or 67% majority stake in the Subsidiary from the Ultimate Parent Company at ₱1.00 per share or ₱3.35 million. On the same date, the Parent Company acquired the remaining 33% stake in the Subsidiary from various individuals for a total consideration of ₱1.65 million. This resulted in 100% ownership interest of the Parent Company in the Subsidiary after the restructuring.

The Parent Company and the Subsidiary, comprising the Group, are entities under common control before and after the restructuring. The Group applied the pooling of interests method in accounting for the restructuring. Under the pooling of interests method, the financial statements of the combining entities are combined at their carrying values and no goodwill is recognized.

No restatement was made for periods prior to the business combination (see Note 2).

The interim consolidated financial statements of the Group as of August 31, 2016 and December 31, 2015 and for the eight-month periods ended August 31, 2016 and 2015 were authorized for issue by the BOD of the Parent Company on October 7, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying interim consolidated financial statements of the Group have been prepared using the historical cost basis. The interim consolidated financial statements are presented in Philippine Peso (₱), the Group's functional currency. All amounts were rounded off to the nearest peso, except when otherwise indicated.

These interim consolidated financial statements were prepared in relation to the Parent Company's plan to conduct an initial public offering.

As discussed in Note 1, the Parent Company acquired 100% ownership interest in the Subsidiary. The Parent Company and its Subsidiary are under common control before and after the business combination on August 22, 2016. The transaction represents business combination of entities under common control and was accounted for using the pooling of interests method. These interim consolidated financial statements are the Group's first consolidated financial statements. The comparatives presented herein are based on the Parent Company's stand-alone financial statements.

Statement of Compliance

The accompanying interim consolidated financial statements of the Group as of August 31, 2016 and December 31, 2015 and for the eight-month periods ended August 31, 2016 and 2015 have been prepared in accordance with Philippine Financial Reporting Standard (PFRS).

Basis of Consolidation

The interim consolidated financial statements comprise the financial statements of the Group as of August 31, 2016 and December 31, 2015 and for the eight-month periods ended August 31, 2016 and 2015.

The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies for like transactions and other events in similar circumstances.

Control is achieved when the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns though its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- 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 Group re-assesses whether or not it controls and investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating transaction between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any controlling interest and the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Adoption of New and Amended Accounting Standards and Group’s Interpretations

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations which became effective beginning January 1, 2016. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the interim consolidated financial statements.

- Philippine Accounting Standards (PAS) 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PAS 1, *Presentation of Financial Statements* - *Disclosure Initiative* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
- PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 28, *Investment in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception* (Amendments)

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
- PFRS 7, *Financial Instruments: Disclosures - Applicability of the Offsetting Disclosures to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*
- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

<u>Standards and Interpretations Issued but not yet Effective</u>
The Group will adopt the following amended standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the interim consolidated financial statements.

Effective 2017

- PAS 7, *Statement of Cash Flows - Disclosure Initiative* (Amendments)
- PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments)

Effective 2018

- PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*

- PFRS 9, *Financial Instruments*
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  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.

Effective 2019

- PFRS 16, *Leases*
  On January 13, 2016, the International Accounting Standards Board (IASB) issued its new standard, International Financial Reporting Standards (IFRS) 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related

Interpretations. On February 17, 2016, the Financial Reporting Standards Council (FRSC) locally adopted PFRS 16, *Leases.*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 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 lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 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. Earlier application is not permitted until the FRSC has adopted the new revenue recognition standard. The Group is currently assessing the impact of adopting this standard.

Deferred effectivity

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
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The following new standard issued by the IASB has not yet been adopted by the FRSC:

- IFRS 15, *Revenue from Contracts with Customers*
  IFRS 15 was issued in May 2014 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 revenue. 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 with early adoption permitted. 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.

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

<u>Fair Value Measurement</u>
Fair value is the estimated 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 by 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.

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 interim consolidated financial statements are categorized within the fair value hierarchy (see Note 19).

For assets and liabilities that are recognized in the interim consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the interim consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instrument

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of August 31, 2016 and December 31, 2015, the Group's financial instruments are of the nature of loans and receivables and other financial liabilities.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' difference amount. Receivables are recognized initially at original invoice amounts. They are subsequently carried at cost unless when they are collectible beyond one year, in which, they are carried at amortized cost using the effective interest method.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to "Cash", "Receivables" except for "Receivable from employees" and "Other receivables", and "Refundable deposits" under "Other current assets" accounts in the interim consolidated statements of financial position.

After initial measurement, accounts receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" account under "Other income" in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as "Provision for impairment losses" under "General and administrative expenses" account.

Receivables are included in current assets if maturity is within 12 months from the reporting date.

Other financial liabilities
Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group's "Accounts and other payables" (except "Deferred output VAT" and statutory payables included as "Others"), "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets
The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of

impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, 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 the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of the future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, credit history, past-due status and terms.

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the right to receive cash flows from the asset have expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

c. the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of 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, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Prepayments
Prepaid expenses are carried at cost less the amortized portion. Prepaid expenses are initially recorded at cost and are subsequently charged to profit or loss as they are consumed.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and other directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. It excludes the cost of day-to-day servicing.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the property and equipment which are as follows:

	Years
Office equipment	2 to 4
Transportation equipment	5
Office furniture and fixtures	2 to 5
Office improvements	2

The estimated residual values, useful life and depreciation and amortization method are reviewed at least annually to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

If there is an indication that there has been a significant change in depreciation and amortization rate or the useful lives, the depreciation of that property and equipment is revised prospectively to reflect the new expectations.

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 from 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.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level.

Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The estimated useful life of intangible assets pertaining to internally developed software is five (5) years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded under "Cost of services" in the interim consolidated statement of comprehensive income. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets
The Group assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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. Impairment losses are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Combinations of Entities under Common Control
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected in the interim consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity under the "Equity reserve" account.

The financial information in the interim consolidated financial statements are not restated for periods prior to the combination of the entities under common control.

Pension Liability
The net pension 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).

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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 are recognized immediately in the statements of financial position with a corresponding debit or credit through other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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.

Equity

Capital stock and additional paid-in capital
Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital". When the shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained earnings
Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

Unappropriated retained earnings
Unappropriated retained earnings represent the portion of retained earnings that is free and can be declared as dividends to stockholders.

Appropriated retained earnings
Appropriated retained earnings represent the portion of retained earnings which has been restricted and therefore is not available for dividend declaration.

Equity reserve
Equity reserve pertains to the difference between the consideration transferred and the net assets acquired in common control business combination. Equity reserve also pertains to gains or losses resulting from increase or decrease in ownership without loss of control.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any. The Group assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Service income
Service income earned for mobile solution and key platform development services is recognized by reference to the stage of completion of the transaction at the end of the reporting period in accordance with the service agreement. Service income earned from content services is recognized when the service has been rendered through distribution of content services.

Interest income
Interest income on cash in banks is recognized as it accrues using the effective interest method.

Other income
Other income is recognized as it accrues.

Cost and Expenses

"Cost of services" and "General and administrative expenses" are expenditures that arise in the course of the ordinary operations of the Group. The following specific recognition criteria must also be met before costs and expenses are recognized:

Cost of services
Cost that includes all expenses associated with the specific sale of services. Cost of services include salaries, wages and employee benefits, utilities and communication, supplies and other expenses related to services. Such costs are recognized when the related service income have been recognized.

General and administrative expenses
General and administrative expenses constitute expenses of administering the business and are recognized in the profit or loss as incurred.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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

Income Tax
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of taxable temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax 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 financial reporting date. Movements in deferred tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Deferred tax relating to items outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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 income taxes relate to the same taxable entity and the same taxation authority.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of other current assets or payables in the interim consolidated statements of financial position.

Foreign Currency Transactions

The Group's interim consolidated financial statements are presented Philippine Peso, which is also the Parent Company's and the Subsidiary's functional currency. The Philippine peso is the currency of the primary economic environment in which the Group operates. 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.

Transactions denominated in foreign currencies are initially recorded in Philippine Peso at the exchange rate based on the Philippine Dealing and Exchange (PDEx) rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are retranslated at the closing PDEx rate at reporting date. Exchange gains or losses arising from foreign currency transactions are recognized in profit or loss.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the period attributable to common stockholders of the Parent Company by the weighted average number of common shares issued and outstanding during the period adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the period attributable to common stockholders of the Parent Company by the weighted average number of common shares issued and outstanding during the period after giving effect to assumed conversion of all dilutive potential common shares, if any.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets. Financial information on business segments is presented in Note 21 of the interim consolidated financial statements.

Provisions
Provisions are recognized when the entity 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events after the Reporting Period
Post period-end events up to date when the interim consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the interim consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes to the interim consolidated financial statements when material.

3. **Significant Accounting Judgments and Estimates and Assumptions**

The preparation of the accompanying interim consolidated financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim consolidated financial statements and accompanying notes. The judgments and estimates used in the accompanying interim consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the interim consolidated financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the interim consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Group's financial statements:

a. *Operating lease commitments - Group as lessee*
   The Group has entered into contract of lease for the office space it occupies. The contract of lease of the Group is for a period of two years and at the end of the lease term, the ownership of the office space will not convey to the Group. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of this property and so accounts for the contract as operating lease. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the Group. The Group accounts for its contract of lease as a noncancellable operating lease.

b. *Determining common control*
   The Group assessed that there is common control between the Parent Company and the Subsidiary since they have common majority stockholder controlling their relevant activities prior and subsequent to the business combination (see Note 1). The assessment includes determining the parties that control the relevant activities of each of the combining entities.

c. *Capitalization of development costs*
   The Group determined that intangible assets arising from development qualify for recognition by determining that all of the following are present:
   i. The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
   ii. Intention to complete and its ability and intention to use or sell the asset;
   iii. How the asset will generate future economic benefits;
   iv. The availability of resources to complete the asset; and
   v. The ability to measure reliably the expenditure during development.

   The Group recognized casual games developed and launched by Xeleb Inc. in 2015 and acquired through business combination. Carrying value of the intangible assets at acquisition date amounted to ₱7.93 million.

<u>Management's Use of Estimates</u>
The key assumptions concerning future and other key sources of estimation at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating allowance for impairment losses
The Group estimates the level of allowance for impairment losses on 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 factors that affect the collectibility of the accounts. These factors include among others, the length of the relationships with the customers, customers' payment behavior, known market factors, age and status of receivables. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the period. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying values of the Group's receivables amounted to ₱48.30 million and ₱31.84 million as of August 31, 2016 and December 31, 2015, respectively (see Note 5).

Estimating useful lives of intangible assets
The Group estimates the useful lives of intangible assets based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives would increase the recorded amortization expense and decrease noncurrent assets.

The net book value of intangible assets amounted to ₱7.88 million and nil as of August 31, 2016 and December 31, 2015, respectively (see Note 8).

Evaluating impairment of nonfinancial assets
The Group assesses impairment on its other current assets, property and equipment, intangible assets and other noncurrent assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and significant changes in the manner of use of the acquired assets or the strategy for overall business.

The carrying values of these nonfinancial assets follow:

	August 31, 2016	December 31, 2015
Other current assets (Note 6)	**₱8,539,096**	₱1,111,146
Property and equipment (Note 7)	**771,874**	1,496,674
Intangible assets (Note 8)	**7,879,926**	–
Other noncurrent assets (Note 6)	**3,243,465**	–
	₱20,434,361	₱2,607,820

Estimating pension liabilities
The determination of the Parent Company's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Significant assumptions are disclosed in Note 16 and include among others, discount rate and salary increase rate.

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 1994 Group Annuity Mortality Table and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates. While the Parent Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions could materially affect retirement obligations. See Note 16 for the related balances.

4. Cash

This account consists of:

	August 31, 2016	December 31, 2015	August 31, 2015
Cash on hand	**₱30,774**	₱10,000	₱10,000
Cash in banks	**8,062,408**	8,014,138	24,464,999
	₱8,093,182	₱8,024,138	₱24,474,999

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to ₱0.03 million and ₱0.05 million for the eight-month periods ended August 31, 2016 and 2015, respectively.

5. Receivables

This account consists of:

	August 31, 2016	December 31, 2015
Trade receivables	**₱31,434,498**	₱33,024,699
Receivable from related parties (Note 14)	**14,544,491**	570,817
Receivable from third parties	**2,014,376**	–
Receivable from employees	**302,923**	237,197
Others	**8,002**	–
	48,304,290	33,832,713
Less: Allowance for impairment loss	**–**	1,991,444
	₱48,304,290	₱31,841,269

Trade receivables arise mainly from the mobile solution and key platform development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI) and other companies. These are noninterest-bearing and are generally settled on a 90-day term.

Receivable from related parties are noninterest-bearing and generally settled on a 90-day term.

Receivable from third parties pertain to advances made to previous stockholders of the Parent Company.

Receivable from employees pertain to noninterest-bearing salary loans made by the employees and are collectible within one year.

Others are noninterest-bearing and are generally collectible within one year.

The table below shows the movements in the allowance for impairment losses:

	August 31, 2016	December 31, 2015
At January 1	**₱1,991,444**	₱–
Provision during the period	**–**	1,991,444
Write-off	**(1,991,444)**	–
	₱–	₱1,991,444

In 2015, the Company provided an allowance for impairment losses amounting to ₱1.99 million. This arises from individually impaired trade receivables on cancelled projects which are doubtful of collection. In 2016, the allowance for impairment losses was fully written off.

6. **Other Assets**

	August 31, 2016	December 31, 2015
Prepaid professional fees	**₱10,939,542**	₱–
Refundable deposit	**1,088,800**	1,088,800
Others	**843,019**	1,111,146
	12,871,361	2,199,946
Less: Noncurrent portion of prepaid professional fees	**3,243,465**	–
	₱9,627,896	₱2,199,946

Prepaid professional fees pertain to professional fees which represent prepayments for the use of celebrities' voice, name and image to be integrated in the games and promotional appearances during press briefings, product launches and player days. This prepayment was made by Xeleb Inc. in 2015 and acquired through business combination. This is amortized over the lock-in period agreed by the Group and the celebrities which ranges from two to three years. The related amortization is presented under "Professional fees" account included in the "General and administrative expenses" caption in the interim consolidated statements of comprehensive income.

Professional fees pertaining to the amortization of the prepayment included in "General and administrative expenses" amounted to ₱0.19 million and nil for the eight-month periods ended August 31, 2016 and 2015, respectively (see Note 12). Noncurrent portion of the prepaid professional fees amounting to ₱3.24 million as of August 31, 2016 is presented as "Other noncurrent assets" in the interim consolidated statement of financial position.

Refundable deposit pertains to payment of security deposit to TKS Holdings, Inc. This deposit will be refunded to the Parent Company upon termination and non-renewal of its contract of lease (see Note 13).

Others pertain to advance rentals, prepaid expenses and input VAT.

7. Property and Equipment

The rollforward analysis of this account follows:

August 31, 2016

	Office Equipment	**Transportation Equipment**	**Office Furniture and Fixtures**	**Total**
Cost				
At beginning and end of period	**₱3,416,955**	**₱3,619,435**	**₱589,727**	**₱7,626,117**
Accumulated Depreciation				
At beginning of period	**2,646,324**	**3,282,915**	**200,204**	**6,129,443**
Depreciation	**312,723**	**336,520**	**75,557**	**724,800**
At end of period	**2,959,047**	**3,619,435**	**275,761**	**6,854,243**
Net Book Value	**₱457,908**	**₱–**	**₱313,966**	**₱771,874**

December 31, 2015

	Office Equipment	Transportation Equipment	Office Furniture and Fixtures	Office Improvements	Total
Cost					
At beginning of period	₱2,891,762	₱3,619,435	₱542,837	₱3,572	₱7,057,606
Additions	525,193	–	46,890	–	572,083
Retirement	–	–	–	(3,572)	(3,572)
At end of period	3,416,955	3,619,435	589,727	–	7,626,117
Accumulated Depreciation					
At beginning of period	2,092,465	2,475,270	91,558	3,572	4,662,865
Depreciation	553,859	807,645	108,646	–	1,470,150
Retirement	–	–	–	(3,572)	(3,572)
At end of period	2,646,324	3,282,915	200,204	–	6,129,443
Net Book Value	₱770,631	₱336,520	₱389,523	₱–	₱1,496,674

Depreciation and amortization included in the interim consolidated statements of comprehensive income for the eight-month periods ended August 31, 2016 and 2015 are charged under “Cost of services” and “General and administrative expenses” as follows:

	2016	2015
Cost of services (Note 11)	**₱312,724**	₱368,646
General and administrative expenses (Note 12)	**412,076**	857,085
	₱724,800	₱1,225,731

The Group’s fully depreciated property and equipment with original aggregate cost of ₱5.72 million and ₱3.00 million are still in use as of August 31, 2016 and December 31, 2015, respectively.

8. Intangible Assets

This account pertains to casual games developed and launched by Xeleb Inc. in 2015 and acquired through business combination. Carrying value of the intangible assets at acquisition date amounted to ₱7.93 million. Amortization expense recognized in "Depreciation and amortization" under "Cost of services" in relation to these games amounted to ₱0.05 million and nil for the eight-month periods ended August 31, 2016 and 2015, respectively (see Note 11).

Total capitalized costs and accumulated amortization of the developed software amounted to ₱9.86 million and ₱1.98 million as of August 31, 2016, respectively.

Developed games considered to be significant to the total intangible assets recognized have remaining useful lives ranging from three to four years.

9. Accounts and Other Payables

This account consists of:

	August 31, 2016	December 31, 2015
Payable to related parties (Notes 14 and 20)	**₱13,266,794**	₱–
Deferred output VAT	**4,926,311**	3,196,265
Trade payable	**1,448,538**	1,012,630
Taxes payable	**1,159,558**	964,140
Accrued expenses	**31,156**	243,661
Others	**252,285**	367,458
	₱21,084,642	₱5,784,154

Deferred output VAT represents deferral of output VAT related to trade receivables for the services rendered by the Group. These will be recognized as output VAT upon receipt of payment.

Trade payable represents the unpaid subcontracted services and other cost of services. These also include noninterest-bearing customer's deposits which are refundable upon completion of the transactions in accordance with the service agreements.

Taxes payable consists of VAT payable and withholding taxes due to tax authorities. These are noninterest-bearing and are normally settled on a 30-day term.

Accrued expenses mainly consist of accruals for professional fees, utilities, transportation and travel and supplies. These are noninterest-bearing and are normally settled within one year.

Others consist of statutory payables to SSS, Philhealth and HDMF. These are noninterest-bearing and are normally settled within one year.

10. Service Income

Service income pertains mainly to revenues earned for mobile solution and key platform development services rendered by the Group to GTI and other companies and revenues earned from content services rendered by the Group to the Ultimate Parent Company (see Note 14).

11. **Cost of Services**

Cost of services for the eight-month periods ended August 31, 2016 and 2015 consists of the following:

	2016	2015
Salaries, wages and employee benefits	**₱11,332,801**	₱11,795,292
Rent (Note 13)	**1,489,680**	1,369,913
Outsourced services	**1,009,907**	1,848,164
Travel and transportation	**456,048**	381,239
Depreciation and amortization (Notes 7 and 8)	**360,416**	368,646
Material, supplies and facilities	**170,447**	187,074
Web hosting	**114,818**	–
Seminar and trainings	**31,441**	483,015
Prizes and winnings	**2,498**	–
Consultancy fees	**–**	178,192
Others	**–**	9,053
	₱14,968,056	₱16,620,588

12. **General and Administrative Expenses**

This account consists of:

	2016	2015
Supplies	**₱2,424,317**	₱244,314
Salaries, wages and employee benefits	**2,060,465**	3,369,645
Entertainment, amusement and recreation	**1,987,165**	616,857
Transportation	**1,540,917**	656,424
Taxes and licenses	**424,655**	232,049
Utilities	**419,941**	512,484
Depreciation (Note 7)	**412,076**	857,085
Professional fees	**362,141**	216,500
Repairs and maintenance	**378,655**	354,753
Rent (Note 13)	**165,520**	152,213
Dues and subscription	**145,856**	–
Advertising and promotions	**56,993**	21,500
Donation	**–**	50,000
Others	**4,251**	477,883
	₱10,382,952	₱7,761,707

Manpower costs recognized under “Salaries, wages and employee benefits” charged under “Cost of services” and “General and administrative expenses” are as follows:

	2016	2015
Salaries and wages	**₱10,225,120**	₱10,090,150
Other benefits	**3,168,146**	3,550,677
Pension expense	**–**	1,524,110
	₱13,393,266	₱15,164,937

13. **Operating Lease Commitments**

The Group entered into a noncancellable lease agreement with TKS Holdings, Inc. for a period of one year commencing on May 1, 2014 and expiring on April 30, 2015 with an applicable rental rate per month of ₱0.17 million. The lease contract was renewed for a period of two years commencing May 1, 2015 to April 30, 2017 for a monthly rental rate of ₱0.20 million for the first year and ₱0.21 million for the second year of lease.

Total rent expense charged in the interim consolidated statements of comprehensive income amounted to ₱1.66 million and ₱1.52 million for the eight-month periods ended August 31, 2016 and 2015, respectively (see Notes 11 and 12).

As of August 31, 2016 and December 31, 2015, the future minimum lease payments under noncancellable operating leases follow:

	August 31, 2016	December 31, 2015
Within one year	**₱1,716,400**	₱2,513,400
After one year but not more than 5 years	**–**	858,200
	₱1,716,400	₱3,371,600

14. **Related Party Transactions**

The Group, in the normal course of business, has transactions with related parties. Parties are considered to be related if, among others, one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions, the parties are subject to common control or the party is an associate or a joint venture.

Terms and conditions of transactions with related parties
There have been no guarantees provided or received for any related party receivables and payables. These accounts are noninterest-bearing and are generally unsecured. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties. Impairment assessment is undertaken through examination of the financial position of the related party and market in which this related party operates.

Details of transactions with related parties and their outstanding balances to a related party as of August 31, 2016 and December 31, 2015 follow:

			Amount/Volume		**Outstanding Balance**			
			Period ended August 31		**August 31, 2016**		December 31, 2015	
	Terms	**Conditions**	**2016**	2015	**Receivable**	**Payable**	Receivable	Payable
Ultimate Parent Company								
Cash dividends	Noninterest-bearing	Unsecured, no impairment	**₱9,100,000**	₱16,250,000	**₱–**	**₱9,100,000**	₱–	₱–
Receivables	Due and demandable	Unsecured, no impairment	**1,712,966**	–	**14,544,491**	**–**	–	–
Acquisition cost	Due and demandable	Unsecured, no impairment	**3,350,000**	–	**–**	**3,350,000**	–	–
Advances	One year; noninterest-bearing	Unsecured, no impairment	**13,125**	–	**–**	**8,266,794**	–	–
			14,176,091	16,250,000	**14,544,491**	**20,716,794**	–	–
Stockholders								
Cash dividends	Noninterest-bearing	Unsecured, no impairment	**4,900,000**	8.750,000	**–**	**4,410,000**	–	–
Acquisition cost	Due and demandable	Unsecured, no impairment	**1,650,000**	–	**–**	**1,650,000**	–	–
Advances	One year; noninterest-bearing	Unsecured, no impairment	**3,483,561**	–	**–**		570,817	–
			10,033,561	8.750,000	**–**	**6,060,000**	570,817	–
			₱24,209,652	₱25,500,000	**₱14,544,491**	**₱26,776,794**	₱570,817	₱–

Ultimate Parent Company

a. The Group declared cash dividends payable to the Ultimate Parent Company amounting to ₱9.10 million and ₱16.25 million for the eight-month periods ended August 31, 2016 and 2015, respectively. As of August 31, 2016 and December 31, 2015, outstanding dividends payable to the Ultimate Parent Company amounted to ₱9.10 million and nil, respectively.

b. Xeleb Inc. has an ongoing licensing and revenue share agreement with the Ultimate Parent Company wherein Xeleb Inc. shall grant the Ultimate Parent Company a right to distribute on its platform all games and applications created, developed and licensed by Xeleb Inc. In return, the Ultimate Parent Company shall pay Xeleb Inc. a certain percentage of the revenues generated from such applications.

   Total service revenue earned by the Group from these transactions amounted to ₱1.71 million and nil for the eight-month periods ended August 31, 2016 and 2015, respectively. Pertinent outstanding receivables as of August 31, 2016 and December 31, 2015 amounted to ₱14.54 million and nil, respectively.

c. Acquisition cost for the purchase of Xeleb Inc. payable to the Ultimate Parent Company amounting to ₱3.35 million is presented under "Accounts and other payables" (see Note 20).

d. The Group has outstanding payable to the Ultimate Parent Company amounting to ₱8.27 million and nil as of August 31, 2016 and December 31, 2015, respectively, for the operational expenditures paid by the Ultimate Parent Company on its behalf.

Stockholders

a. The Group declared cash dividends payable to its stockholders amounting to ₱4.90 million and ₱8.75 million for the eight-month periods ended August 31, 2016 and 2015, respectively. As of August 31, 2016, outstanding dividends payable to stockholders amounted to ₱4.41 million.

b. Acquisition cost for the purchase of Xeleb Inc. payable to individual stockholders amounting to ₱1.65 million is presented under "Accounts and other payables" (see Note 20).

c. Advances to stockholders pertain mainly to cash advances intended for operating expenditures of the Parent Company which are subject to liquidation. Until August 22, 2016, the stockholders served as officers of the Parent Company. Upon execution of the Deeds of Absolute Sale, they have ceased to be officers of the Parent Company. Accordingly, the outstanding amount was presented as "Receivable from third parties" as of August 31, 2016 (see Note 5).

   Outstanding receivable from stockholders amounted to nil and ₱0.57 million as of August 31, 2016 and December 31, 2015, respectively.

Compensation of key management personnel
Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱3.54 million and ₱2.58 million for the eight-month periods ended August 31, 2016 and 2015, respectively.

15. Income Tax

Provision for income tax for the eight-month periods ended August 31, 2016 and 2015 consists of the following:

	2016	2015
Current	**₱8,161,489**	₱6,664,651
Deferred	**(3,156,648)**	(2,486,954)
Final	**5,235**	9,788
	₱5,010,076	₱4,187,485

The components of the Group's net deferred liabilities are as follows:

	August 31, 2016	December 31, 2015
Deferred tax assets arising from:		
Remeasurement loss on pension liabilities	**₱1,125,511**	₱869,650
Pension expense	**419,836**	2,305,218
Allowance for impairment losses	–	597,433
Accrued expenses	–	73,098
	1,545,347	3,845,399
Deferred tax liabilities on:		
Accrued income	**4,693,735**	10,402,504
Unrealized foreign currency exchange gain	–	3,793
	4,693,735	10,406,297
Net deferred tax liabilities	**₱3,148,388**	₱6,560,898

The reconciliation between the statutory and effective income tax for the eight-month periods ended August 31, 2016 and 2015 follows:

	2016	2015
Income tax computed at statutory income tax rate	**₱3,910,628**	₱4,134,742
Tax effects of:		
Reversal of recognized deferred tax assets	**597,433**	–
Nondeductible entertainment, amusements and recreation expense	**504,701**	57,740
Interest income subjected to final tax	**(2,686)**	(4,997)
	₱5,010,076	₱4,187,485

16. **Pension Liability**

The Group does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act No. 7641) which is of the defined benefit type and provides a retirement benefit equal to 22.5 days' pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement.

The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate and salary increase rate were based on historical and projected rates. Annual cost is determined using the projected unit credit actuarial valuation method.

The components of pension expense/(gain on curtailment) (included in "Salaries, wages and employee benefits" under "General and administrative expenses" or under "Other income") in the interim consolidated statements of comprehensive income for the eight-month periods ended August 31, 2016 and 2015 are as follows:

	2016	2015
Current service cost	**₱990,608**	₱1,198,404
Interest cost on benefit obligation	**342,886**	325,706
Past service cost - curtailment	**(7,618,102)**	–
	(₱6,284,608)	₱1,524,110

Changes in the present value of the defined benefit obligation (DBO) follow:

	August 31, 2016	December 31, 2015
Balance at beginning of period	**₱10,582,895**	₱10,954,226
Current service cost	**990,608**	1,797,606
Interest cost on benefit obligation	**342,886**	488,558
Past service cost - curtailment	**(7,618,102)**	–
Actuarial losses (gains)	**852,872**	(2,657,495)
	₱5,151,159	₱10,582,895

During the eight-month period ended August 31, 2016, the Group undertook restructuring which caused a significant reduction in the headcount. Specifically, the decline in the number of employees covered by the Group's plan included three (3) officers with 16 years tenure with the Parent Company. Accordingly, curtailment recognition amounting to ₱6.28 million was recognized under "Other income" in the interim consolidated statement of comprehensive income.

Remeasurement loss on defined benefit pension plan follow:

	August 31, 2016	December 31, 2015
Balance at beginning of period	**₱2,029,185**	₱3,889,431
Actuarial losses (gains)		
Changes in financial assumptions	**510,093**	(1,033,103)
Experience adjustment	**342,779**	(1,624,392)
Tax effect relating to actuarial gains (losses)	**(255,862)**	797,249
	₱2,626,195	₱2,029,185

The assumptions used to determine pension benefits of the Group are as follows:

	August 31, 2016	December 31, 2015
Discount rate	**4.48%**	4.86%
Salary projection rate	**8.00%**	8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption of the defined benefit obligation as at the end of the reporting periods, assuming if all other assumptions were held constant:

		Effect on DBO	
	Basis points (bps)	**August 31, 2016**	December 31, 2015
Discount rate	+ 100 bps	**(23.9%)**	(20.5%)
	- 100 bps	**32.0**	26.4
Salary projection rate	+ 100 bps	**29.3**	24.1
	- 100 bps	**(22.7)**	(19.4)

The weighted average duration of DBO at the end of the reporting period is 30 years.

17. **Equity**

Capital stock

The Parent Company has an authorized capital stock of ₱5.00 million divided into 5,000,000 shares at ₱1.00 par value. As of August 31, 2016, December 31, 2015 and August 31, 2015, 4,593,714 shares have been subscribed, issued and outstanding for a total amount of ₱4.59 million.

On August 24, 2016, the BOD and stockholders approved the increase of authorized capital stock from ₱5.00 million to ₱100.00 million consisting of 4,000,000,000 common shares and the change of par value from ₱1.00 to ₱0.025 per share. As of August 31, 2016, the Parent Company is still in the process of application and are subject for approval by the SEC.

On August 24, 2016, a Subscription Agreement was executed between the Parent Company, the Ultimate Parent Company and various individuals wherein the Parent Company offers to the other parties a total of 999,991,000 common shares conditional upon securing the certificate of approval for the increase in authorized capital to be issued by the SEC, and the other parties agree to subscribe to such shares.

Retained earnings
On February 1, 2015, the BOD approved and authorized the release of appropriated retained earnings amounting to ₱25.00 million. On the same date, the BOD approved the payment of cash dividends on May 14, 2015, September 22, 2015 and December 14, 2015 amounting to ₱10.00 million, ₱7.50 million and ₱7.50 million, respectively, to stockholders on record as of December 31, 2014.

On December 26, 2015, the BOD approved the appropriation for cash dividend declaration amounting to ₱9.00 million to stockholders on record as of December 31, 2015.

On the same date, the BOD approved to maintain the appropriated funds for future expansion of business office and for expenditures related to the retirement benefits of the Parent Company amounting to ₱5.00 million.

On August 22, 2016, the BOD approved the release of appropriated retained earnings amounting to ₱14.00 million. On the same date, the BOD approved the declaration of cash dividends in the aggregate amount of ₱14.00 million to stockholders on record as of December 31, 2015 as condition precedent to the Share Purchase Agreement over the purchase by the Ultimate Parent Company of the 35% minority interest in the Parent Company. The payment date for the cash dividend declared shall be determined by the Ultimate Parent Company and shall not be later than December 31, 2016.

Capital management
The primary objective of the Group's capital management is to ensure that it maintains a 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 or issue new shares.

The Group's sources of capital follow:

	August 31, 2016	December 31, 2015
Capital stock	**₱4,593,714**	₱4,593,714
Additional paid-in capital	**485,667**	485,667
Retained earnings	**8,590,094**	14,564,748
Equity reserve	**16,329,536**	−
	₱29,999,011	₱19,644,129

The Group is not subject to externally-imposed capital requirements. The Group regards its total equity, except for remeasurement loss on defined benefit plan, as its primary source of capital. No changes were made in the capital management policies as of August 31, 2016 and December 31, 2015.

18. **Earnings Per Share**

The Group's basic earnings per share for the eight-month periods ended August 31, 2016 and 2015 were computed as follows:

	2016	2015
Net income	**₱8,025,346**	₱9,594,989
Weighted average number of outstanding shares	**4,593,714**	4,593,714
Basic/diluted earnings per share	**₱1.75**	₱2.09

Earnings per share is calculated using the interim consolidated net income attributable to the equity holders of the Parent Company divided by weighted average number of shares. The Group has no potentially dilutive ordinary shares.

19. **Financial Instruments**

Fair Value Information
The carrying amounts of cash, receivables (excluding receivable from employees and other receivables), refundable deposits under other current assets, and accounts and other payables (excluding taxes payable, deferred output VAT and statutory payables included as "Others") and dividends payable approximate fair values due to the relatively short-term maturities of these instruments.

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets and liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of August 31, 2016 and December 31, 2015, the Group does not have financial instruments measured at fair value.

Financial Risk Management and Objectives and Policies
The Group's financial instruments comprise cash, receivables (excluding receivable from employees and other receivables), refundable deposits under other current assets, accounts and other payables (excluding taxes payable, deferred output VAT and statutory payables) and dividends payable which arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.

Exposure to credit risk and liquidity risk arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Group's risk management policies are summarized below:

Credit Risk
Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation.

The Group's credit risk is primarily attributable to cash in banks and receivables. To manage credit risk, the Group monitors its exposure to credit risk on a continuous basis. The table below shows the maximum exposure to credit risk for the components of the interim consolidated statements of financial position as of August 31, 2016 and December 31, 2015:

	August 31, 2016	December 31, 2015
Cash in banks	**₱8,062,408**	₱8,014,138
Receivables (excluding receivable from employees and other receivables)	**47,993,365**	33,595,516
Other current assets	**1,088,800**	1,088,800
	₱57,144,573	₱42,698,454

The aging analysis of receivables presented per class follows:

August 31, 2016

	Neither Past Due nor Impaired	**Past Due but Not Impaired**			**Impaired Financial Assets**	**Total**
		<30 days	**30 to <90 days**	**>90 days**		
Trade receivables	**₱20,103,437**	**₱331,655**	**₱4,239,361**	**₱6,760,045**	**₱**	**₱31,434,498**
Receivable from related parties (Note 14)	**14,544,491**	**–**	**–**	**–**	**–**	**14,544,491**
Receivable from third parties	**2,014,376**	**–**	**–**	**–**	**–**	**2,014,376**
	₱36,662,304	**₱331,655**	**₱4,239,361**	**₱6,760,045**	**₱–**	**₱47,993,365**

December 31, 2015

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	Total
		<30 days	30 to <90 days	>90 days		
Trade receivables	₱–	₱9,622,492	₱5,190,249	₱16,220,514	₱1,991,444	₱33,024,699
Receivable from related parties (Note 14)	570,817	–	–	–	–	570,817
	₱570,817	₱9,622,492	₱5,190,249	₱16,220,514	₱1,991,444	₱33,595,516

The tables show the credit quality by class of the Group's financial assets:

August 31, 2016

	Neither Past Due nor Impaired			**Past due but not Impaired**	**Impaired Financial Assets**	**Total**
	High Grade	**Medium Grade**	**Low Grade**			
Cash in banks	**₱8,062,408**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,062,408**
Receivables						**–**
Trade receivables	**20,103,437**	**–**	**–**	**11,331,061**	**–**	**31,434,498**
Receivable from related parties	**14,544,491**	**–**	**–**	**–**	**–**	**14,544,491**
Receivable from third parties	**2,014,376**	**–**	**–**	**–**	**–**	**2,014,376**
Other current assets						
Refundable deposits	**1,088,800**					**1,088,800**
	₱45,813,512	**₱–**	**₱–**	**₱11,331,061**	**₱–**	**₱57,144,573**

December 31, 2015

	Neither Past Due nor Impaired			Past due but not Impaired	Impaired Financial Assets	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱8,014,138	₱–	₱–	₱–	₱–	₱8,014,138
Receivables						
Trade receivable	–	–	–	31,033,255	1,991,444	33,024,699
Receivable from related parties	570,817	–	–	–	–	570,817
Other current assets						
Refundable deposits	1,088,800					1,088,800
	₱9,673,755	₱–	₱–	₱31,033,255	₱1,991,444	₱42,698,454

The credit quality of the financial assets was determined as follows:

Cash in banks - based on the nature of the counterparty and the Group's rating procedure. These are held by counterparty banks with minimal risk of bankruptcy and are therefore classified as high grade.

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

Liquidity Risk
Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirement, finance capital expenditures and service maturing debts. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available short-term and long term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD.

The maturity profile of the Group's financial assets and financial liabilities at August 31, 2016 and December 31, 2015 are based on contractual undiscounted payments.

As of August 31, 2016 and December 31, 2015, the Group's financial assets and financial liabilities have a maturity of less than one year.

20. Common Control Business Combination

On August 22, 2016, the Parent Company acquired 67% majority stake in Xeleb Inc. from the Ultimate Parent Company. On the same date, the Parent Company acquired the remaining 33% stake in Xeleb Inc. from the remaining minority stakeholders. Both the Parent Company and Xeleb Inc. are under the common control of the Ultimate Parent Company before and after the acquisition. As such, the Group has accounted for the business combination using the pooling of interests method.

Under the pooling of interests method, the assets and liabilities of the combining entities were reflected in the interim consolidated financial statements at their carrying amounts. No new goodwill was recognized as a result of the combination. The difference between the acquisition cost and the net assets acquired was reflected within equity under the "Equity reserve" account.

As allowed under Philippine Interpretations Committee (PIC) Q&A No. 2012-01, *Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, no restatement was made for periods prior to the business combination.

The following were the carrying values of the identifiable assets and liabilities of Xeleb Inc. as at August 22, 2016, the date of combination:

Assets	
Cash	₱2,721,562
Receivables	12,633,970
Intangible assets	7,927,618
Other assets	14,144,457
	37,427,607
Liabilities	
Accounts and other payables	13,911,670
Income tax payable	2,186,401
	16,098,071
Total net assets acquired	21,329,536
Acquisition cost	5,000,000
Equity reserve	₱16,329,536

Total acquisition cost amounting to ₱5.00 million which remains unpaid as of August 31, 2016 is presented under "Accounts and other payables" and was subsequently paid on September 22, 2016 (see Note 22).

Equity reserve amounting to ₱16.33 million was recognized as a result of the business combination. This pertains to equity reserve amounting to ₱10.94 million which was recognized as the difference between book value of net assets acquired from the Ultimate Parent Company of ₱14.29 million and the acquisition cost of ₱3.35 million. This also includes equity reserve amounting to ₱5.39 million from the acquisition of noncontrolling interests from various individuals as the difference between the book value of net assets acquired of ₱7.04 million and the acquisition cost of ₱1.65 million.

Below is the revenue and cost and expenses of Xeleb Inc. for the eight-month period ended August 31, 2016:

Total revenue	₱49,736,292
Total costs and expenses	21,017,256
Net income	₱28,719,036

From August 23 to August 31, 2016, the Group's share in revenue and net income of Xeleb Inc. amounted to ₱1.71 million and ₱0.97 million, respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue would have been ₱80.09 million, while the Group's net income would have been ₱35.77 million.

21. **Segment Reporting**

The industry segments where the Group operates follow:

- Enterprise services - includes enterprise software development and systems integration, maintenance and support services for various commercial entities, including telecommunications companies
- Celebrity branded mobile games and content - includes mobile casual games and content offerings

The following tables present business segment revenue and profit information for the eight-month periods ended August 31, 2016 and 2015:

2016

	Enterprise services	**Celebrity branded mobile games and content***	**Consolidated**
Revenue			
Sales to external customers	**₱30,361,267**	**₱1,712,966**	**₱32,074,233**
Operating expenses	**(25,027,772)**	**(323,236)**	**(25,351,008)**
Operating profit	**5,333,495**	**1,389,730**	**6,723,225**
Interest income	**26,405**	**–**	**26,405**
Other income	**6,285,792**	**–**	**6,285,792**
Provision for income tax	**(4,593,157)**	**(416,919)**	**(5,010,076)**
Net income	**₱7,052,535**	**₱972,811**	**₱8,025,346**

**For the eight-month periods ended August 23, 2016 to August 31, 2016*

2015

	Enterprise services*
Revenue	
Sales to external customers	₱33,450,167
Operating expenses	(24,382,295)
Operating profit	9,067,872
Interest income	49,285
Other income	4,665,317
Provision for income tax	(4,187,485)
Net income	₱9,594,989

**For the eight-month period ended August 31, 2015, the Group is solely composed of the Parent Company which operates only under the enterprise services segment.*

The following tables present business segment assets and liabilities as of August 31, 2016 and December 31, 2015:

August 31, 2016

	Enterprise services	**Celebrity branded mobile games and content***	**Corporate**	**Consolidated**
Other information				
Segment assets	**₱41,757,359**	**₱36,163,274**	**₱–**	**₱77,920,633**
Segment liabilities	**₱28,538,501**	**₱13,860,928**	**₱5,000,000**	**₱47,399,429**
Deferred tax liabilities	**3,148,388**	**–**	**–**	**3,148,388**
Total liabilities	**₱31,686,889**	**₱13,860,928**	**₱5,000,000**	**₱50,547,817**

**Corporate liabilities pertain to the acquisition cost for the purchase of Xeleb Inc. (see Notes 9 and 20).*

December 31, 2015

	Enterprise services*
Other information	
Segment assets	₱43,562,027
Segment liabilities	₱19,386,185
Deferred tax liabilities	6,560,898
Total liabilities	₱25,947,083

**For the year ended December 31, 2015, the Group is solely composed of the Parent Company which operates only under the enterprise services segment.*

22. Events After Reporting Date

On September 22, 2016, the Parent Company received a total of ₱33.90 million from the Ultimate Parent Company, Selajo, Inc., Joseliemm Holdings, Inc. and Conrev, Inc., of which ₱33.88 million was for deposits for future stock subscription. Also on September 26, 2016, the Parent Company received ₱5.97 million from Rainy Day Future Entertainment, Inc. as initial payment for its subscription to the increase in authorized capital stock. This is in relation to the Subscription Agreement executed on August 24, 2016 (see Note 17).

On September 22, 2016, the Parent Company settled its outstanding payable amounting to ₱5.00 million for its acquisition of 100% ownership or 5,000,000 common shares of stocks in Xeleb Inc. (see Note 20).

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors
Fluxion, Inc.
Unit 2501 The Trade and Financial Tower, 32nd St. cor. 7th Ave.
Bonifacio Global City, Taguig

We have audited in accordance with Philippine Standards on Auditing, the interim consolidated financial statements of Fluxion, Inc. and its Subsidiary (the Group) as of August 31, 2016 and December 31, 2015 and for the eight-month periods ended August 31, 2016 and 2015 and have issued our report thereon dated October 7, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules A to L listed in the Index to the Interim Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic interim consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic interim consolidated financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic interim consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321616, January 4, 2016, Makati City

October 7, 2016

FLUXION, INC. AND SUBSIDIARY

INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Schedule	Contents
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-term Debt
F	Indebtedness to Related Parties (Long-term Loans from Related Companies)
G	Guarantees of Securities of Other Issuers
H	Capital Stock
I	Reconciliation of Retained Earnings Available for Dividend Declaration
J	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsidiaries
K	List of Effective Standards and Interpretations
L	Financial Ratios

SCHEDULE A

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash and cash equivalents				
Cash on hand	₱–	₱30,774	₱–	₱–
Cash in banks				
Bank of the Philippine Islands				
Savings Account	–	4,981,406	–	26,040
US Dollar Account	–	292,039	–	365
Security Bank				
Savings Account	–	2,788,963	–	–
Receivables				
Trade	–	31,434,498	–	–
Receivables from related parties	–	14,544,491	–	–
Receivable from third parties	–	2,014,376	–	–
	₱–	₱56,086,547	₱–	₱26,405

FLUXION, INC. AND SUBSIDIARY

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amount liquidated	Amount reclassified*	Current	Not Current	Balance at the end of the period
Advances to employees	₱237,197	₱342,934	₱277,208	₱–	₱–	₱302,923	₱–	₱302,923
Accounts receivable from directors, officers, KMP and employees	570,817	5,228,310	–	3,784,751	2,014,376	–	–	–
	₱808,014	₱5,571,244	₱277,208	₱3,784,751	₱2,014,376	₱302,923	₱–	₱302,923

**Advances to stockholders were reclassified to receivable from third parties since stockholders resigned upon group restructuring.*

FLUXION, INC. AND SUBSIDIARY

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

Receivables from Related Parties which are Eliminated during the Consolidation

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at end of period

Not Applicable

The Group does not have receivables from related parties which are eliminated during the consolidation of financial statements.

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS

Intangible Assets - Other Assets						
Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (Deductions)	Ending balance
Developed software	₱–	₱7,927,618*	₱47,692	₱–	₱–	₱7,879,926

**Acquired through common control business combination*

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

Long-term Debt

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet

Not Applicable

The Group does not have long-term debt in its interim consolidated statements of financial position.

SCHEDULE F

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

Indebtedness to Related Parties (Long-term Loans from Related Companies)		
Name of related party	Balance at beginning of period	Balance at end of period

Not Applicable

The Group does not have long-term loans from related companies in its interim consolidated statements of financial position but the indebtedness to related party exceeds 5% of the total assets.

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee

Not Applicable

The Group does not have any guarantees of securities of other issuing entities by the issuer for which the interim consolidated financial statements is filed.

SCHEDULE H

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK

Capital Stock

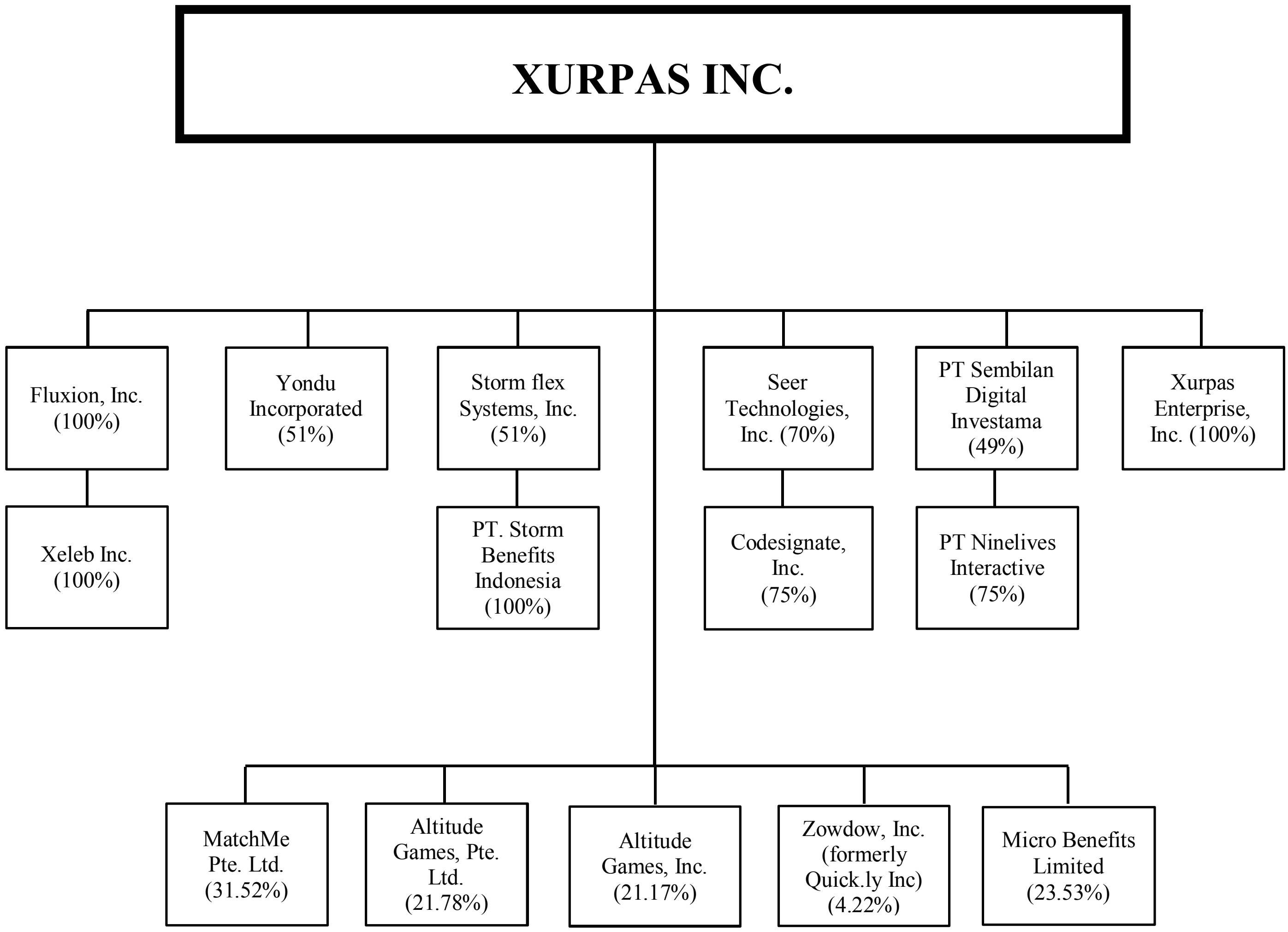
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	5,000,000	4,593,714	−	4,593,709	5	−

FLUXION, INC. AND SUBSIDIARY
SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

	August 31, 2016
Unappropriated Retained Earnings, beginning	₱564,748
Adjustments:	
Deferred tax liabilities - net, beginning	6,560,898
Unappropriated Retained Earnings, as adjusted, beginning	7,125,646
Add (less):	
Net income during the period closed to retained earnings (Parent Company)	8,025,346
Release of appropriation for dividend declaration	14,000,000
Cash dividends declared	(14,000,000)
Deferred tax asset income	(3,156,648)
	4,868,698
Unappropriated Retained Earnings, end available for dividend distribution	₱11,994,344

FLUXION, INC. AND SUBSIDIARY

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



FLUXION, INC. AND SUBSIDIARY
LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Noncurrent Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Amendments to PFRS 7: Servicing Contracts	✓		
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	**Not early adopted**		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	**Not early adopted**		
	Financial Instruments (2014 or final version)	**Not early adopted**		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	**Not early adopted**		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PFRS 10: Investment Entities:			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
	Applying the Consolidation Exception			
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	**Not early adopted**		
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term Receivable and Payables	✓		
	Amendments to PFRS 13: Portfolio Exception	**Not early adopted**		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers**	**Not early adopted**		
PFRS 16	Leases**	**Not early adopted**		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendment to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendment to PAS 7: Disclosure Initiative	**Not early adopted**		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	**Not early adopted**		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19	Employee Benefits	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
(Amended)	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Interim Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendment to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investment in Associate			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	**Not early adopted**		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Nonfinancial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at August 31, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** Effectivity has been deferred by the SEC and FRSC*
*** New standard issued by the IASB has not yet been adopted by the FRSC*

SCHEDULE L

FLUXION, INC. AND SUBSIDIARY
FINANCIAL RATIOS

Financial Ratios	August 31, 2016	December 31, 2015
A. Current ratios		
Current ratios	156.28%	477.84%
Quick ratios	133.49%	452.85%
B. Solvency ratios/debt-to-equity ratios	*This is not applicable as the Group has no short term and long term debt as of August 31, 2016 and December 31, 2015.*	
C. Asset-to-equity ratios	284.66%	247.30%
D. Interest rate coverage ratios	*This is not applicable as the Group has no interest expense incurred from short-term and long-term for the eight-month period ended August 31, 2016 and for the year ended December 31, 2015.*	
E. Profitability ratios		
Net income margin	25.02%	16.98%
Gross margin	53.33%	43.64%
Operating margin	42.90%	27.31%
Return on total assets	13.21%	15.04%
Return on equity	35.68%	34.43%