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.

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
AAFS	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.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
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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

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

Report on the Financial Statements

We have audited the accompanying financial statements of Fluxion, Inc., which comprise the statements of financial position as of December 31, 2015, 2014 and 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Fluxion, Inc. as of December 31, 2015, 2014 and 2013, and its financial performance and its cash flows for the years then ended 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.
STATEMENTS OF FINANCIAL POSITION

	December 31		
	2015	2014	2013
ASSETS			
Current Assets			
Cash (Notes 4 and 16)	**₱8,024,138**	₱23,149,180	₱25,392,552
Receivables (Notes 5, 11 and 16)	**31,841,269**	43,219,238	28,492,694
Other current assets	**2,199,946**	1,659,702	178,000
Total Current Assets	**₱42,065,353**	68,028,120	54,063,246
Noncurrent Asset			
Property and equipment (Note 6)	**1,496,674**	2,394,741	2,949,127
Total Assets	**₱43,562,027**	₱70,422,861	₱57,012,373
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Notes 7, 11 and 16)	**₱5,784,154**	₱12,223,670	₱11,503,878
Income tax payable	**3,019,136**	5,854,589	9,090,827
Total Current Liabilities	**8,803,290**	18,078,259	20,594,705
Noncurrent Liabilities			
Pension liability (Note 13)	**10,582,895**	10,954,226	4,476,452
Deferred tax liabilities (Note 12)	**6,560,898**	9,208,973	7,268,760
Total Noncurrent Liabilities	**17,143,793**	20,163,199	11,745,212
Total Liabilities	**25,947,083**	38,241,458	32,339,917
Equity (Note 14)			
Capital stock	**4,593,714**	4,593,714	4,593,714
Additional paid-in capital	**485,667**	485,667	485,667
Retained earnings	**14,564,748**	30,991,453	19,613,685
Remeasurement loss on defined benefit plan (Note 13)	**(2,029,185)**	(3,889,431)	(20,610)
Total Equity	**17,614,944**	32,181,403	24,672,456
	₱43,562,027	₱70,422,861	₱57,012,373

See accompanying Notes to Financial Statements.

FLUXION, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014	2013
REVENUE			
Services (Note 8)	**₱50,488,632**	₱68,946,976	₱61,802,421
Interest income (Note 4)	**79,892**	63,213	49,988
Others	**4,682,741**	79,930	62,075
	55,251,265	69,090,119	61,914,484
COST AND EXPENSES			
Cost of services (Note 9)	**28,453,926**	22,988,176	19,314,574
Supplies	**2,703,604**	2,126,547	3,416,933
Entertainment, amusement and recreation	**2,159,584**	342,222	839,971
Salaries, wages and employee benefits	**2,103,818**	2,884,786	2,586,515
Provision for doubtful accounts (Note 5)	**1,991,444**	–	–
Transportation	**1,221,525**	1,963,122	3,172,372
Depreciation (Note 6)	**916,291**	1,266,876	1,053,179
Repairs and maintenance	**812,645**	526,100	457,518
Utilities	**753,750**	483,716	512,001
Insurance	**656,427**	105,967	602,340
Professional fees	**488,286**	317,393	125,000
Taxes and licenses	**273,760**	304,343	282,560
Rent (Note 10)	**231,913**	158,675	120,191
Dues and subscription	**82,575**	101,133	122,000
Donation	**50,000**	–	–
Advertising	**33,500**	66,500	63,000
Others	**273**	162,336	189,606
	42,933,321	33,797,892	32,857,760
INCOME BEFORE INCOME TAX	**12,317,944**	35,292,227	29,056,724
PROVISION FOR INCOME TAX (Note 12)	**3,744,649**	10,581,126	8,778,353
NET INCOME	**8,573,295**	24,711,101	20,278,371
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on defined benefit plan (Note 13)	**1,860,246**	(3,868,821)	(20,610)
TOTAL COMPREHENSIVE INCOME	**₱10,433,541**	₱20,842,280	₱20,257,761
Basic/Diluted Earnings Per Share (Note 15)	**₱1.87**	₱5.38	₱4.41

See accompanying Notes to Financial Statements.

FLUXION, INC.
STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2015	2014	2013
CAPITAL STOCK - ₱1.00 par value (Note 14)			
Authorized - 5,000,000 shares			
Issued and outstanding - 4,593,714 shares			
Balance at beginning and end of year	**₱4,593,714**	₱4,593,714	₱4,593,714
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning and end of year	**485,667**	485,667	485,667
RETAINED EARNINGS (Note 14)			
Appropriated			
Balance at beginning of year	**30,000,000**	18,333,333	8,000,000
Appropriations	**9,000,000**	25,000,000	13,333,333
Release from appropriation	**(25,000,000)**	(13,333,333)	(3,000,000)
Balance at end of the year	**14,000,000**	30,000,000	18,333,333
Unappropriated			
Balance at beginning of year	**991,453**	1,280,352	9,668,644
Cash dividends	**(25,000,000)**	(13,333,333)	(18,333,330)
Appropriations	**(9,000,000)**	(25,000,000)	(13,333,333)
Net income	**8,573,295**	24,711,101	20,278,371
Release from appropriation	**25,000,000**	13,333,333	3,000,000
Balance at end of year	**564,748**	991,453	1,280,352
	14,564,748	30,991,453	19,613,685
REMEASUREMENT LOSS ON DEFINED BENEFIT PLAN (Note 13)			
Balance at beginning of year	**(3,889,431)**	(20,610)	–
Movement during the year	**1,860,246**	(3,868,821)	(20,610)
Balance at end of year	**(2,029,185)**	(3,889,431)	(20,610)
	₱17,614,944	₱32,181,403	₱24,672,456

See accompanying Notes to Financial Statements.

FLUXION, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱12,317,944**	₱35,292,227	₱29,056,724
Adjustments for:			
Pension expense (Note 13)	**2,286,164**	950,887	909,641
Provision for doubtful accounts (Note 5)	**1,991,444**	–	–
Depreciation (Note 6)	**1,470,150**	1,698,447	1,346,156
Gain from disposal of assets (Note 6)	**–**	(58,517)	–
Unrealized foreign exchange gain	**(12,645)**	(4,673)	(62,075)
Interest income (Note 4)	**(79,892)**	(63,213)	(49,988)
Income before changes in working capital	**17,973,165**	37,815,158	31,200,458
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**9,386,525**	(14,726,544)	5,508,656
Other current assets	**(540,244)**	(1,481,702)	–
Increase (decrease) in accounts and other payables	**(6,439,516)**	719,792	679,540
Net cash generated from operations	**20,379,930**	22,326,704	37,388,654
Interest received	**79,892**	63,213	49,988
Income tax paid	**(10,025,426)**	(10,219,085)	(4,797,640)
Net cash provided by operating activities	**10,434,396**	12,170,832	32,641,002
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 6)	**(572,083)**	(1,144,120)	(2,855,148)
Proceeds from disposal of property and equipment	**–**	58,576	–
Net cash used in investing activities	**(572,083)**	(1,085,544)	(2,855,148)
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	**(25,000,000)**	(13,333,333)	(18,333,330)
NET DECREASE IN CASH	**(15,137,687)**	(2,248,045)	11,452,524
EFFECT OF EXCHANGE RATE CHANGES IN FOREIGN CURRENCY ON CASH	**12,645**	4,673	62,075
CASH AT BEGINNING OF YEAR	**23,149,180**	25,392,552	13,877,953
CASH AT END OF YEAR (Note 4)	**₱8,024,138**	₱23,149,180	₱25,392,552

See accompanying Notes to Financial Statements.

1. Corporate Information

Fluxion, Inc. (the 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 Company is 65.00% owned subsidiary of Xurpas, Inc. (the Parent Company) as of December 31, 2015, 2014 and 2013.

The 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.

The accompanying financial statements were approved and authorized for reissuance by the Board of Directors (BOD) on October 7, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (₱) which is also the Company's functional currency. All amounts have been rounded off to the nearest peso unless otherwise indicated.

Statement of Compliance
The accompanying financial statements as of December 31, 2015, 2014 and 2013 have been prepared in accordance with Philippine Financial Reporting Standard (PFRS). These three-year comparative financial statements will be used for the Company's plan to conduct an initial public offering.

The Company has availed of the SEC's exemption from the mandatory adoption of PFRS for Small and Medium-sized Entities on the ground that its Parent Company is reporting under full PFRS.

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the 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, 2015. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the financial statements.

Annual Improvements to PFRSs (2010-2012 cycle)
These improvements are effective from July 1, 2014 and the Company has applied these amendments for the first time in these financial statements. Unless otherwise stated, these amendments have no impact on the Company's financial statements. They include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures - Key Management Personnel*

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary Amendments to the following standards. The Amendments are effective for annual periods beginning on or after July 1, 2014 and have no material impact on the Company unless otherwise stated. They include:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement - Portfolio Exception*
- PAS 40, *Investment Property*

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

Effective 2016

- 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*
- 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)

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 Company. 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, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits - RegionalMarket Issue Regarding Discount Rate*
- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Effective 2018

- 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 Company's financial assets and impairment methodology for financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The Company 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*

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

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

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the 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 IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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

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

Fair Value Measurement
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 Company.

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 Company 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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company 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 Company recognizes a financial asset or a financial liability in the statement 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 Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments, available-for-sale (AFS) investments and loans and receivables. The Company 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 at December 31, 2015, 2014 and 2013, the Company'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 Company 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 Company determines the appropriate method of recognizing the 'day 1' difference amount. Receivables are recognized initially at original invoice amounts. These are subsequently carried at cost unless when it is 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" and "Receivables" accounts in the statements of financial position.

After initial measurement, 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 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 doubtful accounts" under "Cost and expenses" in the statement of comprehensive income. 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 Company's "Accounts and other payables" (except "Taxes payable" and statutory payables included as "Others") 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 Company 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 Company 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 Company 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 profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. 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 Company to reduce any differences between loss estimates and actual loss experience.

Derecognition of Financial Assets and Liabilities
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 Company 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 Company 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 Company 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 Company'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 Company 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 profit or loss.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the Company's statements 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.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation 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 if such property and equipment when that cost is incurred if the recognition criteria are met. It excludes the cost of day-to-day servicing.

Depreciation and amortization commences once the property and equipment are put into operational use and is computed on a straight-line basis over the estimated useful lives of the property and equipment follows:

	Years
Office equipment	2 to 4
Transportation equipment	3
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 rate or the useful lives of the assets, the depreciation of that item of 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.

Impairment of Nonfinancial Assets
At each reporting date, other current assets and property and equipment are reviewed to determine whether there is indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of assets) in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

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 and gains or losses on non-routine settlements are recognized as expense in profit or loss. 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 statement 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 Company'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 Company, 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.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any. The following specific recognition criteria must also be met before revenue is recognized:

Service income

Service income 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.

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.

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 that term of the 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).

Company as lessee

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments on noncancellable leases are recognized as expense in the profit or loss as incurred.

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 balance sheet 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, with certain exceptions. 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 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 carry forward benefits of unused tax credits and NOLCO 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 the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is 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 reporting date.

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.

Earnings Per Share (EPS)

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

Segment Reporting

The Company’s operating businesses is its only income generating activity and such is the measure used by the Chief Operations Officer (COO) in allocating resources. Financial information on reporting segment is presented in Note 17 to the 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 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 financial statements but are disclosed in the notes when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the management of the Company to make use of judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and liabilities at reporting date. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the 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.

Judgments
In the process of applying the Company'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 Company's financial statements.

Determining functional currency
The Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Company primarily operates.

Operating lease commitments - Company as lessee
The Company has entered into contract of lease for the office space it occupies. The Company 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 Company considers among others, the significance of the penalty, including the economic consequence to the Company. The Company accounts for its contract of lease as noncancellable operating lease.

Determination of operating segment
PFRS 8 requires segment disclosure based on components of the entity that management monitors in making decisions about operating matter. Such components or segments are identified on the basis of internal reports that the entity's COO reviews regularly in allocating resources to segments and in assessing their performance. The Company has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8.

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating allowance for impairment losses on receivables
The Company maintains allowances for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior and other known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying values of the Company's receivables amounted to ₱31.84 million, ₱43.22 million and ₱28.49 million as of December 31, 2015, 2014 and 2013, respectively (see Note 5). The allowance for doubtful accounts amounted to ₱1.99 million as of December 31, 2015 and nil as of December 31, 2014 and 2013 (see Note 5).

Estimating useful lives of property and equipment
The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property and equipment 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 of property and equipment would increase the recorded depreciation expense and decrease noncurrent assets.

The carrying amount of the Company's property and equipment, net of accumulated depreciation, amounted to ₱1.50 million, ₱2.39 million and ₱2.95 million as of December 31, 2015, 2014 and 2013, respectively (see Note 6).

Evaluating impairment of nonfinancial assets
The Company assesses impairment on its other current assets and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company 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 the related accounts are as follows:

	2015	2014	2013
Other current assets	**₱2,199,946**	₱1,659,702	₱178,000
Property and equipment (Note 6)	**1,496,674**	2,394,741	2,949,127
	₱3,696,620	₱4,054,443	₱3,127,127

Deferred tax assets
The Company reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Company looks at its projected performance in the sufficiency of future taxable income.

Also, the Company does not recognize certain deferred taxes on deductible temporary differences where doubt exists as to the tax benefits they will bring in the future. There were no unrecognized deferred tax assets as of December 31, 2015, 2014 and 2013.

Estimating pension liabilities
The determination of the 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 13 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 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 13 for the related balances.

4. **Cash**

This account consists of:

	2015	2014	2013
Cash on hand	**₱10,000**	₱10,000	₱10,000
Cash in banks	**8,014,138**	23,139,180	25,382,552
	₱8,024,138	₱23,149,180	₱25,392,552

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to ₱0.08 million, ₱0.06 million and ₱0.05 million in 2015, 2014 and 2013, respectively.

5. **Receivables**

This account consists of:

	2015	2014	2013
Trade receivables	**₱33,024,699**	₱42,898,975	₱28,125,596
Receivable from stockholders (Note 11)	**570,817**	72,356	–
Receivable from employees	**237,197**	247,907	367,098
	33,832,713	43,219,238	28,492,694
Less: Allowance for doubtful accounts	**1,991,444**	–	–
	₱31,841,269	₱43,219,238	₱28,492,694

Trade receivables arise mainly from mobile solution and key platform development services rendered to the Company's major customer, Globe Telecommunications, Inc. (Globe) and other companies. These are noninterest-bearing and are generally settled on 90-day terms.

Receivable from stockholders are noninterest-bearing and are due and demandable.

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

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.

6. **Property and Equipment**

The rollforward analysis of this account follows:

2015

	Office Equipment	Transportation Equipment	Office Furniture and Fixtures	Office Improvements	Total
Cost					
At beginning of year	**₱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 year	**3,416,955**	**3,619,435**	**589,727**	**–**	**7,626,117**
Accumulated Depreciation					
At beginning of year	**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 year	**2,646,324**	**3,282,915**	**200,204**	**–**	**6,129,443**
Net Book Value	**₱770,631**	**₱336,520**	**₱389,523**	**₱–**	**₱1,496,674**

2014

	Office Equipment	Transportation Equipment	Office Furniture and Fixtures	Office Improvements	Total
Cost					
At beginning of year	₱3,004,518	₱3,619,435	₱293,813	₱72,989	₱6,990,755
Additions	674,939	–	469,181	–	1,144,120
Disposals	(787,695)	–	(220,157)	(69,417)	(1,077,269)
At end of year	2,891,762	3,619,435	542,837	3,572	7,057,606
Accumulated Depreciation					
At beginning of year	2,448,555	1,268,793	251,291	72,989	4,041,628
Depreciation	431,572	1,206,477	60,398	–	1,698,447
Disposals	(787,662)	–	(220,131)	(69,417)	(1,077,210)
At end of year	2,092,465	2,475,270	91,558	3,572	4,662,865
Net Book Value	₱799,297	₱1,144,165	₱451,279	₱–	₱2,394,741

2013

	Office Equipment	Transportation Equipment	Office Furniture and Fixtures	Office Improvements	Total
Cost					
At beginning of year	₱2,572,305	₱1,196,500	₱293,813	₱72,989	₱4,135,607
Additions	432,213	2,422,935	–	–	2,855,148
At end of year	3,004,518	3,619,435	293,813	72,989	6,990,755
Accumulated Depreciation					
At beginning of year	2,155,578	239,300	227,605	72,989	2,695,472
Depreciation	292,977	1,029,493	23,686	–	1,346,156
At end of year	2,448,555	1,268,793	251,291	72,989	4,041,628
Net Book Value	₱555,963	₱2,350,642	₱42,522	₱–	₱2,949,127

Depreciation and amortization for the years ended December 31, 2015, 2014 and 2013 are charged as follows:

	2015	2014	2013
Cost of services	**₱553,859**	₱431,571	₱292,977
Operating expenses	**916,291**	1,266,876	1,053,179
	₱1,470,150	₱1,698,447	₱1,346,156

Included under asset disposals for the year ended December 31, 2014 are telecom and network server assets which are obsolete and fully depreciated, improvements and office fixtures that were left during the transfer of the business office. Gain from disposal of assets amounted to ₱0.06 million.

The Company's fully depreciated property and equipment with original aggregate cost of ₱3.00 million, ₱2.69 million and ₱2.24 million are still in use as of December 31, 2015, 2014 and 2013, respectively.

7. Accounts and Other Payables

This account consists of:

	2015	2014	2013
Taxes payable	**₱4,160,405**	₱9,095,427	₱6,811,430
Trade payables	**1,012,630**	937,625	857,625
Accrued expenses	**243,661**	1,845,200	1,850,549
Payable to related parties (Note 11)	–	–	1,550,000
Others	**367,458**	345,418	434,274
	₱5,784,154	₱12,223,670	₱11,503,878

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

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

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

Payable to related parties are noninterest-bearing and are due and demandable.

Other payables are noninterest-bearing and are normally settled within one year.

8. Service Income

Service income amounting to ₱50.49 million, ₱68.95 million and ₱61.80 million in 2015, 2014 and 2013, respectively, pertains to revenues earned for mobile solution and key platform development services rendered by the Company to its major customer, Globe, and other companies.

9. Cost of Services

This account consists of:

	2015	2014	2013
Salaries, wages and employee benefits	**₱20,536,376**	₱16,532,491	₱12,991,153
Contractual services	**2,772,717**	1,248,476	366,123
Rent (Note 10)	**2,087,213**	1,428,076	918,994
Travel and transportation	**1,204,242**	214,442	332,689
Seminar and trainings	**615,304**	1,602,752	500,000
Depreciation (Note 6)	**553,859**	431,571	292,977
Material, supplies and facilities	**305,379**	472,655	448,986
Web hosting	**200,644**	101,986	56,467
Professional fees	**178,192**	955,727	3,407,185
	₱28,453,926	₱22,988,176	₱19,314,574

10. **Operating Lease Commitments**

The Company entered into various lease agreements for the office spaces it occupies. Leases have terms ranging from one to three years and renewable subject to new terms and conditions to be mutually agreed upon by both parties.

a. The Company entered into a lease agreement with Asian Diamond Plans, Inc. (AADI) for a period of three years commencing on April 30, 2011. The applicable rental rate per month is ₱0.07 million. In 2012, the Company entered into another agreement with AADI for the adjacent unit for a period of one year commencing on September 17, 2012 with an applicable rate of ₱0.02 million per month. On April 21, 2014, the Company extended its rent and parking lease agreement with AADI from May 1 to 15, 2014.

b. The Company 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 statements of comprehensive income amounted to ₱2.32 million, ₱1.59 million and ₱1.04 million in 2015, 2014 and 2013, respectively.

As of December 31, 2015, 2014 and 2013, the future minimum lease payments under noncancellable operating leases follow:

	2015	2014	2013
Within one year	**₱2,513,400**	₱691,000	₱273,600
After one year but not more than 5 years	**858,200**	–	–
	₱3,371,600	₱691,000	₱273,600

11. **Related Party Transactions**

The Company, 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 receivables and payables to related parties as of December 31, 2015, 2014 and 2013 follow:

2015

	Terms	Conditions	Amount/ Volume	Outstanding Balances Receivables	Payables
Parent Company					
Cash dividends	Noninterest-bearing	Unsecured, no mpairment	**₱16,250,000**	**₱–**	**₱–**
			16,250,000	**–**	**–**
Stockholders					
Advances	One year, noninterest bearing	Unsecured, no impairment	**6,207,045**	**570,817**	**–**
Cash dividends	Noninterest-bearing	Unsecured, no impairment	**8,750,000**	**–**	**–**
			14,957,045	**570,817**	**–**
			₱31,207,045	**₱570,817**	**₱–**

2014

	Terms	Conditions	Amount/ Volume	Outstanding Balances Receivables	Payables
Parent Company					
Cash dividends	Noninterest-bearing	Unsecured, no impairment	₱8,666,667	₱–	₱–
			8,666,667	–	–
Stockholders					
Advances	One year, noninterest bearing	Unsecured, no impairment	5,771,086	72,356	–
Cash dividends	Noninterest-bearing	Unsecured, no impairment	4,666,666	–	–
			10,437,752	72,356	–
			₱19,104,419	₱72,356	₱–

2013

	Terms	Conditions	Amount/ Volume	Outstanding Balances Receivables	Payables
Parent Company					
Cash dividends	Noninterest- bearing	Unsecured, no impairment	₱11,916,667	₱–	₱–
			11,916,667	–	–
Stockholders					
Advances	One year, noninterest bearing	Unsecured, no impairment	1,550,000	–	1,550,000
Cash dividends	Noninterest-bearing	Unsecured, no impairment	6,416,663	–	–
			7,966,663	–	1,550,000
			₱19,883,330	₱–	₱1,550,000

Parent Company

The Company paid cash dividends to the Parent Company amounting to ₱16.25 million, ₱8.67 million and ₱11.92 million in 2015, 2014 and 2013, respectively.

Stockholders

a. Transactions with stockholders pertain to advances for the operating expenditures that were shouldered by the stockholders on the Company's behalf.

b. In 2015, 2014 and 2013, the stockholders received cash dividends from the Company amounting to ₱8.75 million, ₱4.67 million and ₱6.42 million, respectively.

Compensation of key management personnel
Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱4.33 million, ₱3.22 million and ₱2.74 million for the years ended December 31, 2015, 2014 and 2013, respectively.

12. **Income Tax**

Provision for income tax consists of:

	2015	2014	2013
Current	**₱7,174,113**	₱6,970,426	₱11,654,270
Final	**15,860**	12,421	9,749
Deferred	**(3,445,324)**	3,598,279	(2,885,666)
	₱3,744,649	₱10,581,126	₱8,778,353

The current provision arises from regular corporate income tax both in 2015, 2014 and 2013.

The components of net deferred tax liabilities represent the tax effects of the following:

	2015	2014	2013
Deferred tax assets on:			
Pension expense	**₱2,305,218**	₱1,619,369	₱1,334,103
Remeasurement loss on pension liabilities	**869,650**	1,666,899	8,833
Allowance for impairment losses	**597,433**	–	–
Accrued expenses	**73,098**	553,560	507,765
	3,845,399	3,839,828	1,850,701
Deferred tax liabilities on:			
Accrued income	**10,402,504**	13,047,399	9,100,838
Unrealized foreign exchange gain	**3,793**	1,402	18,623
	10,406,297	13,048,801	9,119,461
Net deferred tax liabilities	**₱6,560,898**	₱9,208,973	₱7,268,760

The reconciliation between the statutory and effective income tax rates follow:

	2015	2014	2013
Income tax computed at statutory income tax rate	**₱3,695,383**	₱10,587,668	₱8,717,017
Tax effects of:			
Nondeductible entertainment, amusement and recreation expense	**57,373**	–	66,584
Interest income subjected to final tax	**(8,107)**	(6,542)	(5,248)
	₱3,744,649	₱10,581,126	₱8,778,353

13. **Pension Liability**

The Company 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 day pay for every year of credited service. The regulatory benefit will be 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 (included in "Salaries, wages and employee benefits" under "Cost and expenses") in the statements of comprehensive income are as follows:

	2015	2014	2013
Current service cost	**₱1,797,606**	₱665,289	₱693,508
Interest cost on benefit obligation	**488,558**	285,598	216,133
	₱2,286,164	₱950,887	₱909,641

Changes in the present value of the defined benefit obligation follow:

	2015	2014	2013
Balance at beginning of year	**₱10,954,226**	₱4,476,452	₱3,537,368
Current service cost	**1,797,606**	665,289	693,508
Interest cost on benefit obligation	**488,558**	285,598	216,133
Net actuarial losses (gains)	**(2,657,495)**	5,526,887	29,443
	₱10,582,895	₱10,954,226	₱4,476,452

Remeasurement loss on defined benefit pension plan follow:

	2015	2014	2013
Balance at beginning of year	**₱3,889,431**	₱20,610	₱–
Actuarial losses (gains) on:			
Changes in financial assumptions	**(1,033,103)**	4,026,345	(301,687)
Experience adjustment	**(1,624,392)**	1,500,542	331,130
Tax effect relating to actuarial gain (loss)	**797,249**	(1,658,066)	(8,833)
	₱2,029,185	₱3,889,431	₱20,610

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

	2015	2014	2013
Discount rate	**4.86%**	4.46%	6.38%
Salary projection rate	**8.00%**	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 defined benefit obligation		
	Basis points (bps)	**2015**	2014	2013
Discount rate	+ 100 bps	**(20.5%)**	(21.4%)	(21.2%)
	– 100 bps	**26.4**	27.9	27.5
Salary increase rate	+ 100 bps	**24.1**	25.4	25.6
	– 100 bps	**(19.4)**	(20.2)	(20.4)

The weighted average duration of defined benefit obligation as at December 31, 2015, 2014 and 2013 is 26.9 years, 27.7 years and 27.3 years, respectively.

14. Equity

Capital stock
The Company has an authorized capital stock of ₱5.00 million divided into 5,000,000 shares at ₱1.00 par value. As at December 31, 2015, 2014, and 2013, 4,593,714 shares have been subscribed, issued and outstanding for a total amount of ₱4.59 million.

Retained earnings
On February 1, 2013, the BOD approved and authorized the payment of cash dividends on February 15, 2013, March 12, 2013 and November 6, 2013 amounting to ₱2.78 million, ₱5.56 million, ₱4.44 million, respectively, to stockholders on record as at December 31, 2012.

On November 8, 2013, the BOD approved the issuance of cash dividends amounting to ₱5.56 million to be paid on November 29, 2013 to stockholders on record as at November 15, 2013.

On December 26, 2013, the BOD approved the appropriation for cash dividend declaration amounting to ₱13.33 million to stockholders on record as at December 31, 2013.

On the same date, the BOD approved the reduction of the appropriated funds for future expansion of business office and for expenditures related to the retirement benefits of the Company from ₱8.00 million to ₱5.00 million.

On June 1, 2014, the BOD approved and authorized the payment of cash dividends on June 6, 2014, October 14, 2014 and December 1, 2014 amounting to ₱5.56 million, ₱4.44 million, ₱3.33 million, respectively, to stockholders on record as at December 31, 2013.

On December 29, 2014, the BOD approved the appropriation for cash dividend declaration amounting to ₱22.00 million to stockholders on record as at December 31, 2014 and a reserve for its retirement benefit amounting to ₱3.00 million.

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 at 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 Company amounting to ₱5.00 million.

Capital management
The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

The Company's sources of capital as at December 31, 2015, 2014 and 2013 follow:

	2015	2014	2013
Capital stock	**₱4,593,714**	₱4,593,714	₱4,593,714
Additional paid-in capital	**485,667**	485,667	485,667
Retained earnings	**14,564,748**	30,991,453	19,613,685
	₱19,644,129	₱36,070,834	₱24,693,066

The Company is not subject to externally-imposed capital requirements. No changes were made in the capital management policies in 2015, 2014 and 2013.

15. Earnings Per Share

The Company's basic EPS for the years ended December 31, 2015, 2014 and 2013 were computed as follows:

	2015	2014	2013
Net income	**₱8,573,295**	₱24,711,101	₱20,278,371
Weighted average number of outstanding shares	**4,593,714**	4,593,714	4,593,714
Basic/diluted EPS	**₱1.87**	₱5.38	₱4.41

EPS is calculated using the net income attributable to the equity holders of the Company divided by weighted average number of shares. The Company has no potentially dilutive ordinary shares.

16. Financial Instruments

Fair Value
The carrying amounts of cash, receivables (excluding "Receivable from employees") and accounts and other payables (excluding "Taxes payable" and statutory payables included as "Others") approximate fair values due to the relatively short-term maturities of these instruments.

Financial Risk Management and Objectives and Policies
The Company's financial instruments comprise cash, receivables (excluding receivables from employees), and accounts and other payables (excluding taxes payable and statutory payables), which arise directly from operations. The main purpose of these financial instruments is to finance the Company's operations and to earn additional income on excess funds.

Exposure to credit risk and liquidity risk arise in the normal course of the Company's business activities. The main objectives of the Company'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 Company'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 Company by failing to discharge an obligation.

The Company's credit risk is primarily attributable to cash in banks and receivables. To manage credit risk, the Company 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 statements of financial position as of December 31, 2015, 2014 and 2013:

	2015	2014	2013
Cash in banks	**₱8,014,138**	₱23,139,180	₱25,382,552
Receivables	**33,595,516**	42,971,331	28,125,596
	₱41,609,654	₱66,110,511	₱53,508,148

The aging analysis of accounts receivable presented per class follows:

December 31, 2015

	Neither Past Due nor Impaired	**Past Due but Not Impaired**			**Impaired Financial Assets**	
		<30 days	**30 to <90 days**	**>90 days**		**Total**
Trade receivables	**₱–**	**₱9,622,492**	**₱5,190,249**	**₱16,220,514**	**₱1,991,444**	**₱33,024,699**
Receivable from stockholders (Note 11)	**570,817**	**–**	**–**	**–**	**–**	**570,817**
	₱570,817	**₱9,622,492**	**₱5,190,249**	**₱16,220,514**	**₱1,991,444**	**₱33,595,516**

December 31, 2014

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	
		<30 days	30 to <90 days	>90 days		Total
Trade receivables	₱–	₱16,731,580	₱17,239,600	₱8,927,795	₱–	₱42,898,975
Receivable from stockholders (Note 11)	72,356	–	–	–	–	72,356
	₱72,356	₱16,731,580	₱17,239,600	₱8,927,795	₱–	₱42,971,331

December 31, 2013

	Neither Past Due nor Impaired	Past Due but Not Impaired <30 days	30 to <90 days	>90 days	Impaired Financial Assets	Total
Trade receivables	₱–	₱12,993,535	₱938,648	₱14,193,413	₱–	₱28,125,596

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

December 31, 2015

	Neither Past Due nor Impaired			Past due	Impaired	
	High Grade	**Medium Grade**	**Low Grade**	**but not Impaired**	**Financial Assets**	**Total**
Cash in banks	**₱8,014,138**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,014,138**
Receivables						
Trade receivables	**–**	**–**	**–**	**31,033,255**	**1,991,444**	**33,024,699**
Receivable from stockholders (Note 11)	**570,817**	**–**	**–**	**–**	**–**	**570,817**
	₱8,584,955	**₱–**	**₱–**	**₱31,033,255**	**₱1,991,444**	**₱41,609,654**

December 31, 2014

	Neither Past Due nor Impaired			Past due	Impaired	
	High Grade	Medium Grade	Low Grade	but not Impaired	Financial Assets	Total
Cash in banks	₱23,139,180	₱–	₱–	₱–	₱–	₱23,139,180
Receivables						
Trade receivables	–	–	–	42,898,975	–	42,898,975
Receivable from stockholders (Note 11)	72,356	–	–	–	–	72,356
	₱23,211,536	₱–	₱–	₱42,898,975	₱–	₱66,110,511

December 31, 2013

	Neither Past Due nor Impaired			Past due	Impaired	
	High Grade	Medium Grade	Low Grade	but not Impaired	Financial Assets	Total
Cash in banks	₱25,382,552	₱–	₱–	₱–	₱–	₱25,382,552
Receivables						
Trade receivables	–	–	–	28,125,596	–	28,125,596
	₱25,382,552	₱–	₱–	₱28,125,596	₱–	₱53,508,148

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

Cash in banks - based on the nature of the counterparty and the Company'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 Company will be unable to meet its obligations as they fall due. The Company 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 Company 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 Company's financial assets and financial liabilities at December 31, 2015, 2014 and 2013 are based on contractual undiscounted payments.

As of December 31, 2015, 2014 and 2013, the Company's financial assets and financial liabilities have a maturity of less than one year.

17. Segment Reporting

The Company has determined that it is operating as an operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8.

The Company's business operations is its only income generating activity and such is the measure used by the COO in allocating resources.

18. Events after Reporting Date

Equity restructuring
On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company, a publicly-listed entity, of the remaining 35% interest in the Company. The acquisition of the 35% interest resulted in the Company being a wholly-owned subsidiary of the Parent Company. In a Termination Agreement dated August 22, 2016, the minority stockholders of the 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 Parent Company and the minority stockholders.

On the same date, the BOD authorized the registration of and/or use the name "Xeleb Technologies Inc." to replace the Company's corporate name.

On August 24, 2016, the BOD and Stockholders approved the increase of authorized capital stock approved the increase in the authorized capital stock from ₱5.00 million divided into 5,000,000 common shares at a par value of ₱1.00 each, to ₱100.00 million divided into 4,000,000,000 common shares at a par value of ₱0.025 each. The amendments on the articles of incorporation are still in the process of application and are subject for approval by the SEC.

On September 22, 2016, the Company received a total of ₱33.90 million from the 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 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.

Investment in Xeleb Inc.
On August 22, 2016, the BOD of the Company approved the acquisition of 3,350,000 shares or 67% majority stake in Xeleb Inc. from the Parent Company at ₱1.00 per share or ₱3.35 million. On the same date, the Company acquired the remaining 33% stake in Xeleb Inc. from various individuals for a total consideration of ₱1.65 million. The Company paid the acquisition cost of ₱5.00 million for the 100% ownership or 5,000,000 common shares of stocks in Xeleb Inc. on September 22, 2016.

This resulted to 100% ownership interest of the Company in Xeleb Inc.

Xeleb Inc. 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.

Retained earnings appropriation and dividend declaration
On August 22, 2016, the BOD of the Company 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 Parent Company of the 35% minority interest in the Company. The payment date for the cash dividend declared shall be determined by the Parent Company and shall not be later than December 31, 2016.

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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

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 financial statements of Fluxion, Inc. (the Company) as of and for the year ended December 31, 2015, on which we have rendered the attached report dated October 7, 2016.

In compliance with Securities Regulation Code Rule 68, we are stating that the above Company has four (4) stockholders owning 100 or more shares each.

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