April 14, 2016

**Philippine Stock Exchange, Inc.**
**Disclosure Department**
3F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
1226 Makati Philippines

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

Re: **2015 Annual Report**
**Xurpas Inc.**
**SEC Form 17-A**

Ladies and Gentlemen:

We enclose our Annual Report for calendar year 2015.

We trust that you will find everything in order.

Very truly yours,

XURPAS INC.

By:

ALEXANDER D. CORPUZ
Chief Financial Officer/Chief Information Officer

MARK S. GORRICETA
Corporate Secretary/Chief Legal Officer

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A,** ***AS AMENDED***

**ANNUAL REPORT PURSUANT TO SECTION 17**
**OF THE SECURITIES REGULATION CODE AND SECTION 141**
**OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2015**

2. SEC Identification Number **A200117708** 3. BIR Tax Identification No. **219-934-330-000**

4. Exact name of issuer as specified in its charter **XURPAS INC.**

5. **PHILIPPINES**
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **7th Floor, Cambridge Centre 108 Tordesillas St. Salcedo Village, Makati City 1227**
Address of principal office
**1227**
Postal Code

8. **(632) 889-6467 / fax (632) 889-6426**
Issuer's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.

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

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common Shares** | **1,720,000,660** |

As of December 31, 2015, 20.67% of Xurpas Inc.'s common shares are owned by the public.

11. Are any or all of these securities listed in the Philippine Stock Exchange.

Yes [**X**] No [ ]

A total of 1,720,000,660 common shares are listed in the Philippine Stock Exchange as of December 31, 2015.

12. Check whether the issuer:

(a.) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ **X** ] No [ ]

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

Yes [ **X** ]     No [ ]

13. Aggregate market value of the voting stock held by non-affiliates as of December 31, 2015 amounted to ₱5,235,680,000. The price used for this computation is the closing price as of December 31, 2015 is ₱15.22.

**APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ]     No [ ]

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

## TABLE OF CONTENTS

# PART I - BUSINESS AND GENERAL INFORMATION

## ITEM 1. Business

Xurpas Inc. ("Xurpas" or the "Company") is a technology company specializing in the creation and development of digital products and services for mobile end-users, as well as the creation, development and management of proprietary platforms for mobile operators. The Company offers a complete portfolio of products, including online casual games, messaging and other social discovery applications, as well as mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce. The Company is principally owned and managed by the young and dynamic team of Messrs. Nico Jose S. Nolledo, Raymond Gerard S. Racaza and Fernando Jude F. Garcia, each of whom has accumulated over 15 years of experience in the Information and Communications Technology (ICT) industry.

The Company was incorporated under the laws of the Republic of the Philippines on November 26, 2001 with the primary purpose of developing, producing, selling, buying or dealing in products, goods or services in connection with the transmission, receiving or exchange of voice, data, video or any form or kind of communication.

Originally founded to act as a sub-contractor of Sonera Zed, a division of Sonera, a major telecommunications operator based in Finland, the Company's initial operations in 2001 involve supplying mobile digital content to Sonera Zed. At the time, Sonera had established an exclusive partnership with Smart Communications to develop and provide mobile digital content for Smart Communications' growing telecommunications network.

After the Company obtained a value-added services provider license from the NTC, the Company began to engage in creating and delivering mobile consumer content and services directly to local Telcos and other PTEs. Even as the Company continued to supply mobile consumer content to Sonera Zed and other mobile consumer content providers, the Company had begun to develop and offer its very own mobile consumer content – in the form of what would now be considered as "legacy" content (i.e., mobile ring tones, SMS-based applications, etc.) – directly to Globe Telecom and Smart Communications, the two leading Telecommunications Companies ("Telcos") then and now.

At the same time, utilizing its growing relationships with Philippine Telcos, the Company created and developed pioneering mobile marketing solutions for local consumer brands that had started to harness mobile telecommunications to promote their products. From 2003 to 2005, the Company successfully implemented the very first mobile marketing campaigns of major brands such as Jollibee, San Miguel, Petron, and Penshoppe.

In 2005, the Company acquired a 65% controlling stake in Fluxion, Inc. ("Fluxion"), the Company's sole subsidiary, to expand its product and service portfolio. Fluxion, originally an iAyala wholly-owned subsidiary, had been organized to engage in mobile and internet systems design and the development of programming languages, usability and social media. Through Fluxion, the Company developed mobile platform solutions for the benefit of its client Telcos, which were used (and are still being used) by millions of mobile subscribers at any given time.

On December 2, 2014, Xurpas had its initial public offering of 344.00 million common shares at the Philippine Stock Exchange (PSE) at an offer price of ₱3.97 per share or ₱1.36 billion total proceeds. Net of costs, expenses, and taxes, the estimated net proceeds is ₱1.24 billion. Subsequently, the Company used the proceeds to acquire or invest in the following:

| | Investee Companies | % Share | Cost | Description |
|---|---|---|---|---|
| | Subsidiaries | | | |
| 1 | Yondu, Inc. | 51.00% | 900,000,000 | Mobile value added service; knowledge processing outsourcing |
| 2 | Storm Flex Systems, Inc. | 51.00% | 190,889,553 | HR technology platform |
| 3 | Seer Technologies Inc. | 70.00% | 18,000,000 | Mobile, data, web and cloud software development |
| 4 | Xeleb Inc. | 67.00% | 3,349,996 | Celebrity mobile games |
| | | | 1,112,239,549 | |
| | Affiliates/Investments | | | |
| 5 | MatchMe Pte Ltd. | 31.52% | 60,468,564 | Multi-player smartphone games platform |
| 6 | Quick.ly, Inc. | 4.80% | 44,244,956 | Mobile search platform |
| 7 | Altitude Games Pte Ltd. | 21.78% | 33,220,576 | Games design studio with topnotch local game developers |
| 8 | Einsights | CN | 23,475,000 | Business intelligence platform |
| 9 | PT Sembilan Digital Investama | 49.00% | 10,828,703 | Mobile value added service in Indonesia |
| | | | 172,237,799 | |
| | | | | |
| | **GRAND TOTAL** | | **1,284,477,348** | |

In 2014, Xurpas acquired 21.78% stake in Altitude Games Pte. Ltd. ("Altitude Games"), a Singaporean IT company engaged in computer game development and publishing. Subsequently in 2015, Altitude Games Inc. ("Altitude Philippines") was incorporated wherein Xurpas has subscribed for a 21.17% shareholding. Part of Xurpas' investment in Altitude Games was used as payment for its subscription in Altitude Philippines. No new capital was infused by Xurpas in Altitude Philippines.

In 2015, Xurpas acquired several companies to expand its portfolio of mobile technology products and services, mobile enterprise services, and invest in companies that will aid in the distribution of the aforementioned products and services.

In February 2015, the Company acquired a 51% controlling stake in Storm Flex Systems, Inc. ("Storm"), to enable Xurpas to expand beyond telecommunication networks and into corporations through offering human resource (HR) technology solutions. Storm is also engaged in the business of trading in general, sourcing for and supplying of goods to import and export goods insofar as may be permitted by law.

In June 2015, Xurpas acquired 70% controlling stake in Seer Technologies Inc. ("Seer"), a company engaged in software consultancy, design, development and managed services focused on mobile, cloud and data technologies. In the same month, the Company created Xeleb Inc. ("Xeleb"), a 67%-owned subsidiary, to engage in the development, design, sale and distribution of celebrity-branded games and applications.

In September 2015, the Company acquired 51% controlling stake in Yondu Inc. ("Yondu"), originally a Globe Telecom wholly-owned subsidiary which is presently engaged in the development and creation of wireless products and services accessible through telephones or other forms of communication devices and media networks. It also provides internet and mobile value added services, and information technology and technical services including software development and related services.

## PRODUCTS AND SERVICES

### Mobile Consumer Content and Services

One of the Company's primary businesses is the creation and development of mobile consumer content and other value-added services for mobile phone subscribers such as online casual games, info-on-demand services (e.g., news, social and other entertainment information), chat and messaging applications (e.g., mobile stickers), ringtones, licensed or unlicensed content such as music, videos and other content of similar nature. In addition, for its online casual games (e.g. Grab-a-Gold, GlobeGameswithFriends and PlaySmart) and mobile casual game applications (e.g. Run Super V and Anne Galing!, Sarah G Popsters, Adventures of Kuya Kim, Market Master Erwann, Trip ni Belle, and Aldub You), each of which has been tailored for an internet and online consumer base, the Company develops and maintains its own platforms that host and enable mobile subscribers to access or use such products. The provision of these products and services for end-users is performed by the Company's mobile consumer content and services segment.

*Content Provider Agreements with Telcos*

As of December 31, 2015, the Company is a party to content provider agreements with all three of the Philippines leading Telcos, namely, Smart Communications, Globe Telecom and Sun Cellular.

Under these arrangements, the Company is primarily responsible for conceptualizing, designing, sourcing, generating, and maintaining (including, where necessary, de-bugging) mobile consumer content and services that its client Telco may avail of for distribution to or access, subscription or use by its mobile phone subscribers. On the other hand, the client Telco shall be responsible for all costs incurred in maintaining and operating its telecommunications network, as well as the billing and collection of the fees prescribed by the Telco for access, subscription or use of the mobile consumer content and services paid for by the Telco's mobile phone subscribers.

Access or subscription fees payable for access or subscription to the Company's mobile consumer content are paid exclusively through a mobile subscriber's outstanding mobile airtime credits, and payment of such fees is made by a subscriber by crediting a short code (which is a specific network access code assigned by the Telco to the Company) with the corresponding amount of mobile airtime credit. For instance, a mobile subscriber who wishes to subscribe to a news service offered by the Company, subscription to which is available for a price of ₱2.50, will need to send an instruction by SMS to the Telco through the short code (in the form of brief text commands) to debit his or her outstanding mobile airtime credit with the amount of ₱2.50. All access or subscription fees paid (or deemed paid) by the mobile subscriber are received and collected by the Telco.

In consideration for providing mobile consumer content and services (or access to such content, as for example, licensed content such as music or videos) to the client Telco, the Company receives a share in the revenues derived by the Telco from the fees paid by its mobile phone subscribers to the Telco to access, subscribe to or use such mobile consumer content and services. This share may vary depending on the type of content or service provided by the Company, but is typically equivalent to at least 50% of such access, subscription or usage fees, and is distributed to the Company by the Telco on a monthly basis.

For the year ended December 31, 2015, the Group's total revenue and net income from its mobile consumer products business net of intersegment adjustments were ₱576.05 million and ₱217 million, respectively, while total revenue and net income from its mobile consumer products business for the year ended December 31, 2014 amounted ₱309.37 million and ₱166.01 million, respectively.

**Mobile Enterprise**

The Company develops, on its own or in close collaboration with other technology companies, mobile platform solutions for the benefit of clients such as Telcos, government agencies, including the Land Transportation Office, the Social Security System, and other top-tiered companies like Nestle Philippines, Inc., Unilever Philippines, Inc. and Citibank, N. A. (Philippine Branch). These products, which are tailored to a client's particular requirements and are used by millions of mobile subscribers at any given time, comprise the Company's mobile enterprise services segment and include mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce.

The Company, through its subsidiaries, develops and customizes information technology platforms, provides system integration, mobile platform consultancy, manages off-the-shelf application and social media-related services. These are for the benefit of clients such as Philippine Telcos, publicly-listed corporations such as Energy Development Corp. (EDC), and top-tiered companies such as Puregold Price Club Inc.

For the year ended December 31, 2015, the Company's total revenue and net income from its mobile enterprise business were ₱91.51 million and ₱13.90 million, respectively, while total revenue and net income from its mobile enterprise business were ₱68.95 million and ₱24.71 million, respectively, for the year ended December 31, 2014.

Mobile Marketing Solutions

The Company creates and provides mobile marketing solutions to local and international consumer brands seeking to promote their products through mobile telecommunications. Through its service agreements with prominent brands such as Nestle, Petron, Unilever and Procter & Gamble, the Company develops applications that implement the SMS portions of such brands' mobile telecommunications marketing campaigns, as well as programs that facilitate the interconnection of such applications with the telecommunications networks of its client Telcos.

In consideration of the services rendered by the Company, which includes licensing of the Griffin SMS Gateway program, the Company's proprietary platform that allows the Company to deploy its mobile applications across the telecommunications networks of all of its client Telcos, the Company generally receives stipulated development fees and retainer fees where the engagement is on-going for a specified period of time.

**Knowledge Process Outsourcing**

The Company, through its subsidiaries, provides various enterprise solutions for network, platform, and applications development for the benefit of its clients such as Globe Telecom and other companies. These services are provided through deploying project managers, solutions architects, systems and data analysts, information technology (IT) developers, engineers, and specialists to clients' sites for project engagements. These licensed IT professionals are experts in enterprise solutions such as Oracle®, SAP®, Java™, and other systems integration platforms. These services are offered for project-specific requirements which clients outsource to third party providers for efficiency measures among other merits.

For the year ended December 31, 2015, the Company's total revenue and net income from its knowledge process outsourcing business were ₱151.95 million and ₱27.61 million, respectively.

**Other Services**

The Company, through its subsidiary Storm, provides HR technology solutions its clients such as Ayala Corp., Nestle, and Sun Life Financial. Storm developed a proprietary online platform which allows employees of any company that has signed with Storm to exchange his or her current employee benefits and transform them into products and services such as mobile phones, gadgets, or financial training services. The Company's subsidiary designs, develops, and customizes the HR technology platforms and streamlines the logistical requirements for product and service fulfillment.

For the year ended December 31, 2015, the Company's total revenue and net loss from its other services were ₱78.87 million and ₱28.81 million.

## Competition

Before its acquisition of 51% of Yondu, Xurpas was one of the largest independent mobile consumer content developers in the Philippines. With its acquisition of Yondu, based on internal estimates, the Company holds an estimated 25% market share in the mobile consumer content development business and an estimated 40% share in the mobile enterprise development business.

For its mobile consumer content development business, the Company competes with over 100 mobile consumer content providers. However, the Company believes that its primary competitors comprise the internal mobile consumer content development divisions of its own client Telcos and certain mass media companies in the Philippines, including Information Gateway, Inc., Chikka Philippines, Inc., ABS-CBN Mobile, GMA New Media, Inc., G-Gateway, Zed, Wolfpac and Rising Tide.

Chikka Philippines, Inc. is the mobile consumer content development division of Smart Communications and generates and provides the latter with mobile consumer content and services. On the other hand, ABS-CBN Mobile and GMA New Media, Inc. primarily provide access or subscription to licensed or unlicensed content such as music, videos and other content of similar nature associated with, produced or distributed by their affiliated mass media networks.

For its mobile enterprise development business, which now includes Seer and Yondu, the Company considers Stratpoint Technologies, Inc. as its main competitor, providing outsourced web and mobile applications development services for their clients.

Primary competitors of Yondu's KPO segment are companies that provide Information Technology (IT) staffing solutions and custom development software like 77 Global, K-Force, Tech Mahindra, Amdocs, Sysgen and other medium-scale IT companies.

## INTELLECTUAL PROPERTY

As the Company creates, develops and maintains substantially all of its mobile consumer content, the Company owns and holds exclusive rights to its entire product portfolio, excluding mobile consumer content in the form of licensed content such as music, videos and other content of a similar nature, which it licenses through third party licensors and which represent only 1% of its business.

Key intellectual property of the Company includes the Griffin SMS Gateway program, which is a proprietary platform developed by the Company through which the Company deploys mobile applications through any telecommunications network protocol. The Griffin SMS Gateway program is built on a modular architecture and is written in Java, an industry standard programming language that allows the program to be deployed using most common operating systems, with the following key features:

- The Griffin SMS Gateway allows the Company to connect to any of its client Telco’s SMS center, which represents the heart of any Telco’s wireless network handling all SMS operations, such as routing, forwarding and storing SMS messages, using popular protocols.

- The Griffin SMS Gateway contains a “Multi-Function Middleware” feature that allows the Company to interface with its client Telco’s “Intelligent Network”, which is the network that allows a Telco to offer value-added services to its mobile subscribers on top of its standard services (voice and call services) through UCIP or Diameter, MMSCs via MM7, or billing systems via proprietary SOAP-XML or other proprietary HTTP-based protocols.

- The Java API of the Griffin SMS Gateway allows the Company's application developers to write code that can easily be integrated or deployed across multiple carriers that may have different systems.

The Company likewise owns exclusive rights to its corporate name, as well as various brand names and marks that are used for its operations, such as *GlobeGameswithFriends*, *Grab-a-Gold*, *PlaySmart*, *Crazywireless , #happytummy, #ootd, #swag, #nomnomnom, #selfie, #tbt, #foodporn, Fluxion, Market Master, Anne-Galing and Xeleb.*

Key Intellectual Property of Yondu includes Mobile360 SMS, which is a proprietary platform developed through which it delivers mobile services through various telecommunications connectivities. The Mobile360 SMS platform is built on a modular architecture and is written using industry standard programming languages with the following key features:

- The Mobile360 SMS platform allows the Company to create, process, and analyze SMS services through connectivities with partner Telcos' wireless network.

- The Mobile360 SMS platform allows the Company to provide SMS connectivity to third-party independent developers, software development houses, solutions integrators, and content providers through APIs that can be incorporated into their codes.

- The Do-It-Yourself feature of the Mobile360 SMS platform allows the Company to enable its clients to gain control over their SMS campaigns and services in terms of content, schedule and customer reach.

## REGULATION AND KEY LICENSES

The Company's primary business, that is, the development and delivery of mobile consumer content to its client Telcos, is considered as a form of value-added services regulated by the NTC under the Public Telecommunications Policy Act and related implementing regulations issued by the NTC.

While a value-added services provider (unlike other entities regulated under the Public Telecommunications Policy Act) is not required to obtain a franchise to operate, the NTC requires that any such provider obtain and maintain a Value-Added Services (VAS) License, which shall expressly indicate the value-added services that such provider is authorized to provide. Under existing regulations, the following services may be rendered by a holder of a VAS License:

- SMS and MMS Content Provider (cute texts, news, jokes, forwardable quotes, horoscopes, tips, chat, trivia, twitter and stickers)
- Mobile Tones (true tones, ringback tones, and text tones)
- Games (GrabaGold, Games with Friends, Let's Playsmart, Anne Galing, Market Master Erwann, Trip ni Belle, Sarah G Popsters, Adventure of Kuya Kim, Aldub You)
- Mobile Promotions and Services for Consumer Brands and Third Party Corporate Clients

The Company holds a VAS License issued by the NTC valid until January 3, 2021, pursuant to which the Company is authorized to engage in all of the foregoing value-added services.

The Company believes that its relationship with its employees is generally good and, since the start of its operations, the Company has not experienced a work stoppage as a result of any labor or labor-related disagreements. None of the Company's employees belong to a union.

The table below sets forth the breakdown of the Company's labor complement, grouped according to function, as of December 31, 2015:

| | |
|---|---|
| Executives | 7 |
| Accounting, Finance, Human Resources and Administrative | 7 |
| Marketing | 10 |
| Technical Staff | 52 |
| Total | 76 |

The Company has adopted a rewards and recognition policy that is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talents. Tied to these is a performance management system that calls for the alignment of individual key results, competencies, and development plans with the Company's overall business targets and strategy. Performance is reviewed periodically and employees are rewarded based on the attainment of pre-defined objectives. The Company also maintains programs for its employees' professional, technical and personal development.

As the Company intends to expand its operations both within the Philippines and the Southeast Asia Region, the Company expects to grow its labor complement and engage additional personnel to accommodate its expanded operations. Subject to prevailing market conditions and should any of the Company's business pursuits be completed within the next 12 months, new employees may be hired. The number of employees will not exceed 120.

**PLANS AND PROSPECTS**

As of December 31, 2015, the Company has made acquisitions and investments of in mobile value-added service providers, game development studios, software consultancy and design companies, and content creators and distributors to enhance its product development capability, develop and expand its existing content and significantly increase its reach. New content such as mobile casual games, multi-player games platform, human resource (HR) benefits platform, and enterprise software solutions to name a few were added to the Company's portfolio of services throughout the year 2015. New points of distribution were formed as a result of a strategic investment in Indonesia with PT Sembilan Digital Investama ("PT SDI") and key acquisitions in the Philippines with Yondu and Storm. In addition to its previous revenue mix of mobile consumer services and mobile enterprise services in 2014, the Company has added knowledge process outsourcing and other services as a product of its acquisitions from Yondu and Storm, respectively.

The Company continues to grow its core businesses, mobile consumer services and mobile enterprise services, as well as its new businesses in HR benefits technologies and knowledge process outsourcing by: (1) increasing distribution networks within the Southeast Asia and East Asia region to expand its sales of mobile consumer content, mobile enterprise services, and HR benefits technologies to a broader range of customers, including Telcos and corporations within the region, and (2) implementing strategic investments in existing mobile consumer content, enterprise, applications and platforms developers and proprietary technologies to enhance the mobile experience of emerging market mobile subscribers.

*Regional expansion of distribution networks*

The Company intends to expand its ability to distribute its existing and new mobile consumer content to emerging markets in the Southeast Asia region, which represent a mobile subscriber population of over one billion, excluding the Philippines. These markets present conditions similar to the Philippine mobile market, as these markets feature rising internet and smartphone penetration and its mobile subscriber populations are predominantly under prepaid arrangements. Among other strategies, the

Company plans to establish content provider arrangements with Telcos operating within the Southeast Asia region to offer, develop, distribute and market its mobile products and services to such Telcos' mobile subscribers.

As the Company's mobile products and services have passed the highest standards of Philippine Telcos and its mobile enterprise platforms and applications are widely considered as network or carrier-grade, the Company believes that it is in a strong position to expand its operations outside the Philippines and to offer its existing portfolio to Telcos within the Southeast Asia region. To do so, the Company intends to undertake operations within the Southeast Asia region by opening regional offices or, depending on prevailing market conditions and the regulatory and business environments, by developing, designing, and providing mobile consumer content through its investee companies that hold existing relationships with major Telcos in the region.

As the Company's new HR technology and KPO businesses from acquired companies started contributing to total revenues, the Company plans to expand their ability to distribute their products and services to new customers in Southeast Asia and East Asia to reach new corporate customers. To do this, the Company intends to undertake operations within Southeast Asia and East Asia region. Through key partnerships with existing or new investments, the Company may reach new markets that operate in similar conditions to the Philippine HR and IT outsourcing market.

*Enhancement of mobile platform creation capabilities and mobile enterprise solutions*

The Company will continue to make meaningful investments and partnerships intended to create and provide proprietary technologies and content to improve its ability to create, develop and distribute content within the Philippines and the Asian Region and to expand its existing product and services portfolio. For this purpose, the Company aims to work with, invest in, or acquire other technology companies with content, capabilities, and technologies consistent with the Company's over-all market strategy. These companies may include both local and international developers of smartphone casual games, mobile marketing and distribution software and services.

This plan has started with the establishment, investments, acquisitions of majority stake in various local and international companies.

## ITEM 2. Properties

The Company does not hold any real property of material value. As of December 31, 2015, the Company has transportation, office equipment, IT equipment, furniture and fixtures, and leasehold improvements with a net book value of ₱58.18 million. As the manpower complement increases in the next 12 months, IT and office equipment are expected to increase correspondingly.

The Company's offices are presently located at the 4th and 7th Floors, Cambridge Centre, 108 Tordesillas St., Salcedo Village, Makati City, Philippines, which is leased by the Company from Gervel, Inc.

Operating Lease Commitments

a. The Parent Company entered into a lease contract with Gervel, Inc. for an office space (7th Floor Cambridge Centre Building) for a period of three years commencing on April 1, 2014 and expiring on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.20 million and a corresponding increase of 5% on the third year of the lease.

b. During the year, the Parent Company executed another agreement with Gervel Inc. to lease the 4th Floor of Cambridge Centre Building commencing October 1, 2015 to March 31,

2017. The contract can be renewed in writing upon mutual agreement by the parties. The applicable rate per month is ₱0.25 million.

**ITEM 3. Legal Proceedings**

There are no material pending legal proceedings (including any bankruptcy, receivership or similar proceedings) to which the Company or its subsidiary is a party or to which any of their material assets are subject.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. Market for Issuer's Common Equity and Related Stockholder Matters

Principal market where the registrant's common equity is traded.

On December 2, 2014, Xurpas Inc. had its initial public offering of 344.00 million common shares at the Philippine Stock Exchange (PSE) at an offer price of ₱3.97 per share or ₱1.36 billion total proceeds. Net of costs, expenses, and taxes, the estimated net proceeds is ₱1.24 billion.

The following table shows the high and low prices (in PHP) of Xurpas Inc.'s shares in the Philippine Stock Exchange for the year 2015:

| | 2015 | |
|---|---|---|
| | **High** | **Low** |
| 1st Quarter | 12.60 | 9.30 |
| 2nd Quarter | 11.20 | 8.40 |
| 3rd Quarter | 14.46 | 8.93 |
| 4th Quarter | 17.24 | 14.10 |

The market capitalization of the Company's common shares as of end-2015, based on the closing price of P15.22/share, was approximately ₱26.18 billion versus ₱16.08 billion the previous year or up 63%.

The price information of Xurpas' common shares as of the close of the latest practicable trading date, March 23, 2016, is ₱17.84.

### Holders

There are fifteen (15) registered holders of common shares, as of March 3, 2016 (based on number of accounts registered with the Stock Transfer Agent)[1].

| Stockholder's Name | Outstanding & Issued Shares | Total Holdings | Percentage to Total | Nationality |
|---|---|---|---|---|
| PCD Nominee Corp. (Filipino) | 1,538,082,015 | 1,538,082,015 | 89.42 | Filipino |
| PCD Nominee Corp. (Non-Filipino) | 181,904,471 | 181,904,471 | 10.58 | Others |
| Rogina C. Guda | 6,000 | 6,000 | 0.00 | Filipino |
| Aquilina V. Redo | 5,000 | 5,000 | 0.00 | Filipino |
| Mercedita S. Nolledo | 1,060 | 1,060 | 0.00 | Filipino |
| Wilfredo Oposa Racaza | 1,060 | 1,060 | 0.00 | Filipino |
| Frederick D. Go | 500 | 500 | 0.00 | Filipino |
| Joselito C. Herrera | 500 | 500 | 0.00 | Filipino |
| Fernando Jude F. Garcia | 10 | 10 | 0.00 | Filipino |
| Jonathan Gerard A. Gurango | 10 | 10 | 0.00 | Filipino |
| Alvin D. Lao | 10 | 10 | 0.00 | Filipino |
| Nico Jose S. Nolledo | 10 | 10 | 0.00 | Filipino |
| Raymond Gerard S. Racaza | 10 | 10 | 0.00 | Filipino |
| Owen Nathaniel S. Auitf: Li Marcus Au | 3 | 3 | 0.00 | Filipino |
| Joselito T. Bautista | 1 | 1 | 0.00 | Filipino |

[1] Based on the list of stockholders issued by BDO Unibank Inc. Stock and Investment Group; list includes PCD Nominees

**Dividends**

Information on the Company's declaration of dividends follow:

| Parent Company | Per Share | Amount | Record Date | Payable Date |
|---|---|---|---|---|
| Cash dividend declared on: | | | | |
| April 29, 2015 | 0.40 | 68,800,026 | May 14, 2015 | June 2, 2015 |
| September 20, 2014 | 0.56 | 36,000,000 | June 30, 2014 | Sept. 30, 2014 |
| June 5, 2014 | 0.47 | 30,250,000 | Dec. 31, 2013 | Jun. 30, 2014 |
| November 18, 2013 | 5.13 | 16,666,667 | Sept. 30, 2013 | Nov. 29, 2013 |
| July 22, 2013 | 1.03 | 3,333,333 | Jun. 30, 2013 | Jul. 31, 2013 |
| May 6, 2013 | 0.83 | 2,700,000 | Dec. 31, 2012 | May 31, 2013 |
| March 13, 2013 | 3.08 | 10,000,000 | Dec. 31, 2012 | Mar. 31, 2013 |
| Stock dividend declared on: | | | | |
| July 10, 2014 | 0.95 shares | 61,250,000 | Sept. 20, 2014 | Sept. 20, 2014 |
| May 5, 2014 | 18.85 shares | 61,250,000 | May 5, 2014 | May 5, 2014 |

**Dividend policy**

The Company has adopted a dividend policy pursuant to which stockholders may be entitled to receive, upon declaration by the Company's Board of Directors and subject to the availability of the unrestricted retained earnings, dividends equivalent to at least 30% of the prior year's net income after tax based on the Company's audited consolidated financial statements as of such year, except when: (i) justified by definite corporate expansion projects or programs approved by the Board; or (ii) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (iii) when it can be clearly shown that retention of earnings is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserves for probable contingencies.

The Company cannot provide assurance that it will pay any dividends in the future. In making a decision to declare dividends, the Board may consider various factors including the Company's cash, gearing, return on equity and retained earnings, the results of its operations or the Company's financial condition at the end of the year and such other factors as the Board may deem appropriate. The Company's Board may, at any time, modify such dividend payout ratio depending upon the results of operations and future projects and plans of the Company.

## ITEM 6. Management's Discussion and Analysis or Plan of Operation.

### Financial Performance

*For the year ended December 31, 2015 compared with the year ended December 31, 2014*

| Key Financial Data In PhP Thousands | For the year ended December 31 2015 Amount | Percentage | 2014 Amount | Percentage | Amount Change | % Increase |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Mobile consumer services | 576,055 | 63% | 309,368 | 79% | 266,687 | 86% |
| Mobile enterprise services | 91,508 | 10% | 68,947 | 18% | 22,561 | 33% |
| Knowledge process outsourcing | 151,943 | 16% | - | 0% | 151,943 | n.a. |
| Other services | 78,868 | 9% | - | 0% | 78,868 | n.a. |
| Interest income | 9,435 | 1% | 1,188 | 0% | 8,247 | 694% |
| Other income | 13,409 | 1% | 12,716 | 3% | 694 | 5% |
| *Total Revenues* | **921,218** | **100%** | **392,219** | **100%** | **529,000** | **135%** |
| Cost of Services | 314,695 | 34% | 113,865 | 29% | 200,830 | 176% |
| Cost of Goods Sold | 69,812 | 8% | - | 0% | 69,812 | n.a. |
| **Gross Profit** | **536,712** | **58%** | **278,354** | **71%** | **258,358** | **93%** |
| General and Administrative Expenses | 196,132 | 21% | 39,214 | 10% | 156,919 | 400% |
| Equity in Net Loss of Associate | 9,479 | 1% | - | 0% | 9,479 | n.a. |
| **Income Before Income Tax** | **331,101** | **36%** | **239,141** | **61%** | **91,960** | **38%** |
| Provision for Income Tax | 101,483 | 11% | 48,421 | 12% | 53,061 | 110% |
| **Net Income** | **229,618** | **25%** | **190,719** | **49%** | **38,899** | **20%** |
| Other Comprehensive Income (Loss) | 10,145 | 1% | (12,101) | -3% | 22,246 | -184% |
| **Total Comprehensive Income** | **239,763** | **26%** | **178,618** | **46%** | **61,145** | **34%** |

| In PhP Thousands | Dec. 31, 2015 Amount | Dec. 31, 2014 Amount | Amount Change | % Increase |
|---|---|---|---|---|
| **Total Assets** | 3,394,373 | 1,654,459 | 1,739,914 | 105% |
| **Total Liabilities** | 1,830,622 | 163,901 | 1,666,721 | 1017% |
| **Total Equity** | 1,563,752 | 1,490,558 | 73,194 | 5% |

### Summary

The net income of the Group for the year ended December 31, 2015, increased by 20% (from ₱190.72 million in 2014 to ₱229.62 million in 2015). Core net income (which excludes non-recurring expenses) over the same period increased by 32%. Although group revenues were expected to sustain its increasing trend in 2015 vis-à-vis 2014, net income was not expected to grow at the same pace because of the i) greater expenses as a result of expansion and organizational build-up of the parent company and its other subsidiaries ii) the parent company absorbing its share of the net losses of the technology companies it invested in, many of which are either in their beta testing phase or are in the stage of ramping up their operations iii) market expansion to Indonesia, and iv) higher effective tax rate with the expiration of the income tax holiday of the parent company.

Total revenues increased by ₱529.00 million or 135% for the comparable period, from ₱392.22 million in 2014 to ₱921.22 million in 2015. Of the incremental increase in revenues, ₱266.69 million or 50% was contributed by the mobile consumer services of Xurpas and Yondu; ₱151.94 million or 29% of the net increase was from knowledge process outsourcing revenues, and ₱78.87 million or 15% was from other services. The revenue was enhanced by the introduction of new revenue segments as a result of the acquisitions over the past 12 months. These were knowledge process outsourcing (of Yondu) and other services, which refer to the flexible benefits revenues of Storm Flex Systems Inc.

These results for the period ended December 31, 2015 include three and a half months of the financial results of Yondu Inc. As disclosed on September 15, 2015 – Globe Telecom, Inc. (PSE: GLO) and Xurpas Inc. (PSE: X) completed the closing conditions required for Xurpas to invest Php900 Million for a 51% equity stake in Yondu Inc., a wholly owned subsidiary of Globe. Yondu is a leading content developer and provider of mobile value-added services and information technology services. A summary of the pro-forma consolidated 2015 profit and loss is shown below as a result of the Xurpas/Yondu transaction:

| **In PhP** | **Proforma** FY 2015 |
|---|---|
| Revenue | 1,498,595,621 |
| Income before tax | 467,486,728 |
| Net Income | 329,584,577 |

- *The objective of this pro forma consolidated financial information is to show what the significant effects of the historical financial information might have been had the transactions described below occurred at an earlier date. However, the pro forma consolidated financial information is not necessarily indicative of the results of operations or related effects on the unaudited consolidated financial statements that would have been attained, had the transaction described below actually occurred at an earlier date.*
- *Nets out the results of the mobile advertising business of Yondu which is not part of the acquisition.*

The blended cost of services (aggregating the subsidiaries' costs) increased by 176% from ₱113.86 million for the year ended December 31, 2014 to ₱314.70 million over the same period ended December 31, 2015. Cost of goods sold attributable to other services and benefits rendered from the sale of goods was ₱69.81 million for the year ended December 31, 2015. Gross profit margins for the year ended December 31, 2015 was at 58%, a decrease from the same period last year at 71%. However, in absolute amount, gross profit increased by 93% from ₱278.35 million for the period ended December 31, 2014 to ₱536.71 million for the same period in 2015.

General and administrative expenses increased by 400%, from ₱39.21 million for the year ended December 31, 2014 to ₱196.13 million for the same period in 2015. Overall, the increase was mainly attributed to the costs related to expansion: (i) absorption of the operating expenses of acquired subsidiaries, a number of which are just ramping up their operations, (ii) increase in salaries and wages due to organizational build-up of the parent company and acquired subsidiaries, and (iii) investment and acquisition-related costs and legal fees, the latter being non-recurring. The Company also shares in the net loss of the associate companies it has invested in, which amounted to ₱9.48 million for full year 2015.

Taxes paid for the year ended December 31, 2015 resulted from a full income tax imposed (30%), as the income tax holiday of the Parent Company expired in July 2014. Provision for taxes during the period of 2015 were ₱101.48 million or 110% higher than the same period in 2014 at ₱48.42 million.

Overall, the net income for the Group increased from ₱190.72 million for the full year 2015 to ₱229.62 million over the same period in 2015; an increase of 20%; notwithstanding the expected increase in expenses due to organizational build-up and acquisitions and the full imposition of the 30% corporate income tax.

As of December 31, 2015, core net income which excludes the non-recurring expenses amounting to ₱30.26 million, was at ₱250.80 million or an increase of 32% over the previous period.

Consolidated total assets as of December 31, 2015 amounted to ₱3,394.37 million, an increase of 105% from ₱1,654.46 million as of December 31, 2014. The increase was mainly brought about by the intangible assets and goodwill recognized from the Company's acquisitions. Consolidated total liabilities increased by 1,017% from ₱163.90 million as of December 31, 2014 to ₱1,830.62 million as of December 31, 2015, due mainly to the recognition of liabilities arising from Xurpas' put option pertinent to the Yondu acquisition. Consolidated total equity increased by 5% over the same period, from ₱1,490.56 million to ₱1,563.75 million.

**Segment Financial Performance**

| As of December 31, 2015 In PhP Thousand | Mobile Consumer Services | | Mobile Enterprise Services | | Knowledge Process Outsourcing | | Other Services | | Intersegment Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | Amount |
| **Revenues** | **583,199** | **100%** | **91,508** | **100%** | **151,948** | **100%** | **78,868** | **100%** | **(7,148)** | **898,374** |
| Equity in net loss of associates | (9,479) | 2% | - | 0% | - | 0% | - | 0% | - | **(9,479)** |
| Operating expenses | (276,342) | **47%** | (79,096) | **86%** | (111,315) | **73%** | (117,904) | **149%** | 4,019 | **(580,639)** |
| **Operating profit** | **297,377** | **51%** | **12,412** | **14%** | **40,633** | **27%** | **(39,036)** | **-49%** | **(3,130)** | **308,257** |
| Interest and Other income | 33,254 | 6% | 4,760 | 5% | 179 | 0% | 1,397 | 2% | (16,745) | **22,844** |
| Provision for income tax | (96,780) | 17% | (3,273) | 4% | (13,198) | 9% | 8,834 | 11% | 2,935 | **(101,483)** |
| **Net Income** | **233,851** | **40%** | **13,899** | **15%** | **27,614** | **18%** | **(28,805)** | **-37%** | **(16,940)** | **229,618** |

As of December 31, 2015, mobile consumer services' revenue, operating profit and net income prior to eliminations were ₱583.20 million, ₱297.38 million, and ₱233.85 million, respectively. These translated to 51% operating margin and 40% net income margin. Mobile enterprise services had operating profit of ₱12.41 million (operating profit margin of 14%) and net income of ₱13.90 million (net income margin of 15%) from revenues of ₱91.51 million. Knowledge process outsourcing (KPO) had a 27% margin from operations and netted out an 18% net income margin. These figures were from ₱40.63 million operating profit and ₱27.61 million net income from ₱151.95 million of revenues. The other services segment has yet to yield a positive contribution to the Group.

**Profitability**

*For the year ended December 31, 2015 compared with the year ended December 31, 2014*

**Revenues**

The consolidated revenues of the Group for the year ended December 31, 2015 amounted to ₱921.22 million, 135% higher than the previous year's same period level of ₱392.22 million.

Service Income comprised of the following segments:

| Segment | Description |
|---|---|
| Mobile consumer services | Revenues ultimately derived from providing Mobile consumer services via the Telcos |
| Mobile enterprise services | Revenues derived from the provision of mobile platform solutions to corporate and government clients |
| Knowledge process outsourcing | Revenues derived from various enterprise solutions-based services to Telcos and other companies for network, platform and applications development |
| Other services | Revenues derived from services related to the proprietary platform called "Flex Benefits System," which allows employees to convert their employee benefits to other benefits which includes sale of goods |

| In PhP Thousands | For the year ended December 31 | | | | | | 2014-2015 % Revenue Increase |
|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Incremental | | |
| | Amount | Percentage | Amount | Percentage | Amount | Percentage | |
| **Revenues** | | | | | | | |
| Mobile consumer services | 576,055 | 63% | 309,368 | 79% | 266,687 | 50% | 86% |
| Mobile enterprise services | 91,508 | 10% | 68,947 | 18% | 22,561 | 4% | 33% |
| Knowledge process outsourcing | 151,943 | 16% | - | 0% | 151,943 | 29% | n.a. |
| Other services | 78,868 | 9% | - | 0% | 78,868 | 15% | n.a. |
| Interest income | 9,435 | 1% | 1,188 | 0% | 8,247 | 2% | 694% |
| Other income | 13,409 | 1% | 12,716 | 3% | 694 | 0% | 5% |
| *Total Revenues* | **921,218** | **100%** | **392,219** | **100%** | **529,000** | **100%** | **135%** |

Majority of the service income is still the Mobile Consumer Services segment, which accounted for 63% of the total revenues (₱921.22 million) for the full year 2015. Growth of this segment year on year is 86%, from ₱309.37 million in 2014 to ₱576.05 million. The knowledge process outsourcing segment accounted for ₱151.94 million or 16% of total revenue over the same period. The other components of service income – mobile enterprise services and other services – contributed ₱91.51 million (or 10%) and ₱78.87 million (or 9%), respectively, to total revenues. The mobile enterprise services segment grew by 33%.

The incremental revenue is still mainly from the mobile consumer segment which accounted for 50% or ₱266.69 million of total incremental revenue of ₱529.00 million. Knowledge process outsourcing (KPO) services contributed ₱151.95 million or 29% of the net revenue increase.

Interest income as of December 31, 2015 amounted to ₱9.43 million or 694% higher vis-à-vis the ₱1.19 million from the same period in 2014. Interest income was derived from the interest generated by the Group from its cash deposits in banks and cash equivalents. Other income which includes financial assets at FVPL as of December 31, 2015 amounted to ₱13.41 million or 5% higher vis-à-vis the ₱12.72 million from the same period in 2014.

## Expenses

The Group's consolidated expenses during the year ended December 31, 2015 amounted to ₱580.64 million, a 279% increase from the same period of the previous year at ₱153.08 million. The increase in overall expenses can be seen as a direct result of the Parent Company's expansion and acquisitions:

- the absorption of operational expenses of the acquired subsidiaries,
- salaries and wages paid to the Group's new employees for its organizational build-up program;
- market expansion to Indonesia; and
- payment of professional and legal fees incurred from investments and acquisitions.

It should be noted that part of this period's acquisition-related costs was non-recurring; resulting from transactions related to the Group's expansion.

For the year ended December 31, 2015, cost of services accounted for the bulk of expenses, totaling ₱314.70 million or 54% of the Group's consolidated expenses at ₱580.64 million. For the same period in 2014, cost of services amounted to ₱113.87 million or 74% of overall expenses of ₱153.08 million.

| In PhP Thousands | For the year ended December 31 | | | | | | 2014-2015 % Increase |
|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Incremental | | |
| | Amount | Percentage | Amount | Percentage | Amount | Percentage | |
| **Expenses** | | | | | | | |
| Cost of Services | 314,695 | 54% | 113,865 | 74% | 200,830 | 47% | 176% |
| Cost of Goods Sold | 69,812 | 12% | - | 0% | 69,812 | 16% | n.a. |
| General and Administrative Expenses | 196,132 | 34% | 39,214 | 26% | 156,919 | 37% | 400% |
| *Total Expenses* | **580,639** | **100%** | **153,078** | **100%** | **427,560** | **100%** | **279%** |

## Cost of Services

As shown in the table below, cost of services totaling ₱314.70 million for the year ended December 31, 2015, were mainly driven by expenses relating to (1) salaries, wages, and employee benefits, (2) Segment fee and network costs, and (3) Outsourced services, which accounted for 52%, 18%, and 12%, respectively, for the year ended December 31, 2015. These costs were borne from rendering mobile consumer services, mobile enterprise services, and knowledge process outsourcing services to the Group's clients for the year ended 2015. In comparison, the year ended December 31, 2014 cost of services (₱113.87 million) was broken down into 37% salaries, wages, and employee benefits, 32% outsourced services, and 15% segment fee and network costs. The termination of the agreement with DSI and the compensation given to the DSI officers absorbed by the Group and managing director/ founder (who is now receiving a regular salary) accounted for a significant portion of the change in composition of the cost of services.

| | For the year ended December 31 | | | | | | 2014-2015 % Increase |
|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Incremental | | |
| **In PhP Thousands** | **Amount** | **Percentage** | **Amount** | **Percentage** | **Amount** | **Percentage** | |
| **Cost of Service** | | | | | | | |
| Salaries, wages and employee benefits | 164,988 | 52% | 42,248 | 37% | 122,740 | 61% | 291% |
| Segment fee and network costs | 55,100 | 18% | 16,586 | 15% | 38,513 | 19% | 232% |
| Outsourced services | 36,539 | 12% | 36,192 | 32% | 347 | 0% | 1% |
| Others | 58,068 | 18% | 18,839 | 17% | 39,229 | 20% | 208% |
| | **314,695** | **100%** | **113,865** | **100%** | **200,830** | **100%** | **176%** |

## Cost of Goods Sold

For the year ended December 31, 2015, Cost of goods sold took up 12% of the Group's consolidated expenses, amounting to ₱69.81 million. Cost of goods sold was taken entirely from Storm which was acquired by the Parent Company in end of February 2015. Costs related to the sale of goods from its 'Flexible Benefits' programs were appropriated as cost of goods sold.

## General and Administrative Expenses

General and administrative expenses relating to the Group's day-to-day operations, for the year ended December 31, 2015 amounted to ₱196.13 million, higher by 400% compared to previous year's same period level of ₱39.21 million. Salaries, wages, and employee benefits was ₱66.93 million or 34% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱11.06 million for the same period in 2014. The next biggest cost component in 2015 was professional fees amounting to ₱19.25 million or 10% of total GAEX. The increase in the GAEX was primarily brought about by the consolidation of operational expenses from acquired subsidiaries, salaries and wages paid to the Group's new employees from its organizational build-up program, market expansion to Indonesia, and other expenses related to securing viable acquisitions and investments for the Group, majority of which are legal and tax advisory fees.

| | For the year ended December 31 | | | | | | 2014-2015 % Increase |
|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Incremental | | |
| **In PhP Thousands** | **Amount** | **Percentage** | **Amount** | **Percentage** | **Amount** | **Percentage** | |
| **General and Administrative** | | | | | | | |
| Salaries, wages and employee benefits | 66,933 | 34% | 11,057 | 28% | 55,876 | 36% | 505% |
| Professional fees | 19,253 | 10% | 7,690 | 20% | 11,563 | 7% | 150% |
| Marketing and promotions | 13,527 | 7% | 1,350 | 3% | 12,177 | 8% | 902% |
| Advertising | 10,331 | 5% | 1,793 | 5% | 8,538 | 5% | 476% |
| Others | 86,088 | 44% | 17,324 | 44% | 68,764 | 44% | 397% |
| | **196,132** | **100%** | **39,214** | **100%** | **156,919** | **100%** | **400%** |

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies, namely: Altitude Games, MatchMe, and SDI, for the year ended December 31, 2015, amounted to ₱9.48 million. These companies are still in their beta testing stage or are in the process of ramping up their operations.

**Income before Income Tax**

The Group's net income before taxes for the year ended December 31, 2015 was 36% of total revenues or a figure of ₱331.10 million. The net income before taxes for the Group grew 38% from the same period ended December 31, 2014, which posted a figure of ₱239.14 million.

**Provision for Income Tax**

Provision for income tax during the year ended December 31, 2015 amounted to ₱101.48 million, compared to 2014, where provision for income tax was ₱48.42 million; a 110% increase. This significant increase partially resulted from a full income tax imposed (30%) for the period ended December 31, 2015, as the income tax holiday of the Parent Company expired in July 2014.

**Net Income**

The Group posted a consolidated net income of ₱229.62 million for the year ended December 31, 2015, an increase of 20% from the previous year's same period at ₱190.72 million. Despite the Group's continuing organizational build-up, acquisition, investment-related expenses during this period versus that on December 31, 2014 the robust revenues generated a healthy net income margin of 25% for the year ended December 31, 2015.

**Core Net Income**

As of December 31, 2015, core net income which excludes the non-recurring expenses amounting to ₱30.26 million, was at ₱250.80 million or an increase of 32% over the previous period.

**Financial Position**

*As of December 31, 2015 compared to December 31, 2014*

**Assets**

*Cash and Cash Equivalents*

The Group's consolidated cash and cash equivalents amounted to ₱305.89 million for the year ended December 31, 2015, a net decrease of 68% or ₱652.03 million from consolidated cash and cash equivalents of ₱957.92 million as at December 31, 2014. The decrease was due mainly to investment activities, foremost of which is the acquisition by the Parent Company of 51% of Yondu.

*Accounts Receivable*

The Group's consolidated accounts receivable amounted to ₱756.41 million and ₱138.69 million as at December 31, 2015 and December 31, 2014, respectively, representing an increase of 445% or ₱617.72 million. In December 31, 2015, trade receivables were valued at ₱717.17 million, whereby

Yondu accounts for ₱663.35 million or 92% of the total. Of such amount, ₱481.05 million is due from Globe Telecom Inc. This is expected to be partially offset against the dividends payable by Yondu to Globe Telecom Inc. amounting to ₱244.49 million, as of December 31, 2015.

*Financial Assets at Fair Value through Profit or Loss*

As at December 31, 2015, the total Net Asset Value (NAV) and fair value of the Fund amounted to ₱80.32 million. This was an 84% decrease from the 2014 level, as the ₱500.00 million fund (plus interest) was redeemed to partially fund the acquisition of 51% of Yondu. Subsequently, the Group placed ₱80.00 million. The change in fair value constituted the increase in financial assets at FVPL amounting to ₱0.32 million.

*Available for Sale Financial Assets*

As of December 31, 2015, the Group's available for sale financial assets amounted to ₱17.66 million. As of December 31, 2015, the Group's convertible bonds invested in Pico Candy Pte. Ltd and MatchMe were at ₱3.60 million and ₱14.05 million, respectively.

*Other Current Assets*

The Group's consolidated other current assets totaled ₱44.30 million, an increase of ₱38.99 million or 734% from its previous level on December 31, 2014. Deferred input VAT and prepaid expenses comprised majority of other current assets.

*Available for Sale Financial Assets-net of current portion*

As of December 31, 2015, the Group's available for sale financial assets amounted to ₱67.96 million; a 1,676% increase from the 2014 level of ₱3.83 million. These are the investments in Einsights Pte, Ltd. (₱23.48 million); Quick.ly, Inc. (₱44.24 million); and Club Punta Fuego (₱0.24 million).

*Investment in Associates*

As of December 31, 2015, the Group's consolidated Investment in Associates amounted to ₱102.81 million, a 209% increase from its figure of ₱33.22 million during December 31, 2014. The breakdown of the carrying amounts of these investments are: Altitude Games (₱31.51 million), MatchMe (₱60.47 million), and SDI (₱10.83 million).

*Property and Equipment*

The Group's consolidated Property and Equipment was ₱58.18 million, a result of adding ₱49.27 million worth of said assets in the year ended December 31, 2015. This figure increased by 552% from December 31, 2014 levels at ₱8.92 million. Property and Equipment mainly consisted of transportation, office, information technology equipment, furniture, and fixtures. The increase during the period was mostly due to the consolidation of the property and equipment of Yondu which amounts to ₱39.60 million (net).

*Intangible Assets*

Intangible assets of ₱1,888.28 million were recognized in relation to the Group's acquisitions and investments. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of December 31, 2015, goodwill is at ₱687.81 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2015, customer relationship is valued at ₱1,077.81 million.
- Developed software pertain to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment. As of December 31, 2015, developed software net book value is at ₱106.43 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2015, leasehold rights net book value is at ₱16.23 million.

*Deferred Tax Assets – Net*

The Group's consolidated net deferred tax assets level amounted to ₱42.52 million as at December 31, 2015, higher by 756% vis-à-vis its December 31, 2014 level at ₱4.97 million.

*Other Noncurrent Assets*

Other Noncurrent Assets amounted to ₱30.05 million as of December 31, 2015. This figure is 2,448% higher than the value posted as of December 31, 2014 at ₱1.18 million. This is primarily rental deposits amounting to ₱16.95 million or 56% of total.

**Liabilities**

*Accounts and Other Payables*

The Group's consolidated accounts and other payables valued at ₱522.74 million as of the year ended December 31, 2015 was a 391% increase from its December 31, 2014 figure of ₱106.43 million. The Group's accounts and other payables consisted mainly of dividends payable at ₱253.49 million (₱244.49 million by Yondu to Globe); accounts and other payables at ₱123.97 million (of which ₱113.27 million is Yondu's); and deferred output VAT at ₱74.51 million (Yondu's at ₱63.57 million).

*Loans Payable*

The Group's loans payable is attributable to Seer's local bank loans amounting to ₱14.00 million as of December 31, 2015. These are interest-bearing, short-term, and collateralized by Seer's trade receivables. Such loans are payable in 60 days.

*Income Tax Payable*

The Group's consolidated income tax payable as of December 31, 2015 amounted to ₱39.24 million, an increase of 74% from the December 31, 2014 figure of ₱22.61 million. Of the total, Xurpas' portion is ₱20.03 million and that of Yondu's is ₱16.56 million.

*Liability for Written Put Option*

Based on PAS **32, *Financial Instruments: Presentation***, "…a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to ₱853.18 million, as of December 31, 2015.

*Deferred Tax Liability*

As of December 31, 2015, the deferred tax liability (net) was at ₱360.59 million which is a 3,810% increase from the 2014 level of ₱9.21 million. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

*Pension Liability*

The accrued pension of the Group is at ₱40.87 million, which is a 59% increase from the ₱25.65 million recognized in 2014. In 2014, only the pension liabilities pertaining to Xurpas and Fluxion were recognized; but as of December 31, 2015, those of Seer and Yondu were included.

**Equity**

*Total Equity*

The Group's total equity as of December 31, 2015 was at ₱1,563.75 million, a 5% increase from its December 31, 2014 level at ₱1,490.56. The net increase in total equity was a result of the increase in retained earnings by ₱152.26 or 155% million in the year of December 31, 2015 from December 31, 2014. Likewise, as of December 31, 2015, equity reserve of ₱848.50 million was recorded pertaining to the liability for written option. Noncontrolling interests were at ₱771.52 million.

**Liquidity and Capital Resources**

The Group's liquidity is primarily driven by Cash Flows from Operating Activities and cash reserves. The Group knows of no demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity. The Group is current on all of its accounts The Group has minimal bank debt through Seer Technologies Inc. which is short term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

| Key Financial Data<br>In PhP | For the year ended December 31<br>2015 | <br>2014 |
|---|---|---|
| Net cash provided by (used in) Operating Activities | (32,719,984) | 202,807,585 |
| Net cash used in Investing Activities | (534,889,165) | (526,449,030) |
| Net cash used in Financing Activities | (84,178,026) | 1,195,051,562 |
| Effect of foreign currency exchange rate changes | (245,051) | 4,436 |
| Net increase (decrease) in cash | (652,032,226) | 871,414,553 |
| Cash at beginning of period | 957,917,228 | 86,502,675 |
| Cash at end of period | **305,885,002** | **957,917,228** |

*Cash Flows Provided by Operating Activities*

For the full year of 2015, a strong operating income of ₱355.99 million was coupled with the corresponding increase in account receivables and the decrease in account payables for a resulting ₱113.55 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash used for operating activities of ₱32.72 million.

*Cash Flows Used in Investing Activities*

The Group's consolidated cash flows used in investing activities for acquisitions and associates for the years ended December 31, 2015 and 2014 amounted to ₱534.89 million and ₱526.45 million, respectively.

*Cash Flows Used in Financing Activities*

The Group's consolidated net cash flow used in financing activities for the years ended December 31, 2015 amounted to ₱84.18 million; compared to the net cash provided in 2014 of ₱1,195.05 million. For the year ended December 31, 2015, consolidated net cash flow used in financing activities was attributable mainly to the payment of cash dividends amounting to ₱77.55 million and to the principal payment Storm's loans payable amounting to ₱6.63 million.

Capital Expenditure

The Group's capital expenditures for the years ended December 31, 2015 and December 31, 2014 amounted to ₱57.76 million and ₱7.46 million, respectively. Please note that in 2015, there were additions to capital expenditure due to business combination.

| Key Financial Data<br>In PhP Thousands | December 31, 2015<br>Additions through business combination | <br>Additions (regular) | December 31, 2014<br>Additions (regular) |
|---|---|---|---|
| Transportation Equipment | 77 | - | - |
| Office Equipment | 528 | 1,629 | 1,418 |
| IT Equipment | 16,055 | 6,510 | 1,185 |
| Furniture and Fixutres | 995 | 1,736 | 488 |
| Leasehold Improvements | 23,941 | 3,430 | 4,356 |
| Leased Asset | 2,860 | - | - |
| **Total** | 44,456 | 13,305 | 7,448 |

Commitments and Contingent Liabilities

The Group has no contingent liabilities for the years ended December 31, 2015 and for the year ended December 31, 2014.

**Key Performance Indicators**

The key performance indicators disclosed below present the financial performance of the Group as a whole. These are different with those in supplemental schedule of the consolidated financial statements which were prepared only for the analysis of financial performance attributable to the Parent Company.

The following are the key performance indicators of the Group and its majority-owned subsidiaries:

| | For the years ended December 31 | |
|---|---|---|
| **In Percentage** | 2015 | 2014 |
| **Liquidity Ratios** | | |
| Current Ratio | 84% | 1242% |
| Quick Ratio | 81% | 1238% |
| Debt-to-Equity Ratio | n.a. | n.a. |
| **Asset-to-Equity Ratio** | 217% | 111% |
| **Profitability Ratios** | | |
| Net Income Margin | 25% | 49% |
| Gross Margin | 58% | 71% |
| Operating Margin | 36% | 61% |
| Return on Total Assets | 7% | 12% |
| Return on Equity | 15% | 13% |

**Current Ratios**

Current Ratio and Quick Ratios in the full year of 2015 were 84% and 81%, respectively, a decrease from their respective 1242% and 1238% figures during full year of 2014. The decrease in both ratios was primarily from the increase in current liabilities of the Group for that period due to the recognition of a liability for the written put option. This was substantially greater than the net decrease of the current assets.

**Asset-to-Equity Ratio**

The increase in the asset-to-equity ratio from 111% in December 31, 2014 to 217% in December 31, 2015 resulted from the increase in equity, particularly retained earnings. The increase in net income of the Group drove the increase in retained earnings in December 31, 2015.

**Profitability Ratios**

Profitability margins decreased from December 31, 2014, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (58%), Net Income Margin (25%), Operating Margin (36%), Return on Total Assets (7%) and Return on Equity (15%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, salaries and wages paid to the Group's new employees for its organizational build-up program; and payment of professional and legal fees incurred from investments and acquisitions. In addition, the Company also shares in the net loss of the associate companies it has invested in. Finally, the income tax holiday of the Parent Company expired on July 2014, which now subjects the Company to the full income corporate tax rate of 30%.

The manner by which the Company calculates the foregoing indicators is as follows:

**Current Ratios**

1. Current ratio: $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

2. Quick ratio: $\dfrac{\text{Current assets – Other current assets}}{\text{Current liabilities}}$

**Asset-to-equity Ratio**: $\dfrac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$

**Profitability Ratios**

1. Net income ratio: $\dfrac{\text{Net income attributable to Parent Company}}{\text{Service income}}$

2. Gross margin: $\dfrac{\text{Service income - Cost of services}}{\text{Service income}}$

3. Operating margin: $\dfrac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Service income}}$

4. Return on total assets: $\dfrac{\text{Net income attributable to Parent Company}}{\text{Average total assets}}$

5. Return on total equity: $\dfrac{\text{Net income attributable to Parent Company}}{\text{Average total equity attributable to the Parent Company}}$

Other Disclosures:

i. Liquidity. There are no known trends, events, or uncertainties that will result in the Group's liquidity increasing or decreased in a material way.

ii. Events that will trigger Direct or Contingent Financial Obligation. There are no events that will trigger direct or contingent financial obligations that are material to the Group, including and default or acceleration of an obligation.

iii. Material Off-balance sheet Transactions, Arrangements, Obligations. Likewise, there were no materials off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the group with unconsolidated entities or other persons created during the reporting period.

iv. Material Commitments for Capital Expenditure. There are no material commitments for capital expenditures.

v. Material Events/ Uncertainties. There are no known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.

vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.

vii. Seasonality. The effects of seasonality or cyclicality on the operations of the Group's business are non-material.

## Financial Performance

*For the year ended December 31, 2014 compared with the year ended December 31, 2013*

| Key Financial Data In PhP Thousands | For the year ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| **Revenues** | | | | | | |
| Mobile consumer services | 309,368 | 79% | 190,012 | 75% | 119,357 | 63% |
| Mobile enterprise services | 68,947 | 18% | 61,802 | 25% | 7,145 | 12% |
| Interest income | 1,188 | 1% | 175 | 0% | 1,013 | 579% |
| Other income | 12,716 | 3% | 67 | 0% | 12,648 | 18817% |
| *Total Revenues* | **392,219** | **100%** | **252,056** | **100%** | **140,162** | **56%** |
| Cost of Services | 113,865 | 29% | 89,084 | 35% | 24,780 | 28% |
| **Gross Profit** | **278,354** | **71%** | **162,972** | **65%** | **115,382** | **71%** |
| General and Administrative Expenses | 39,214 | 10% | 23,306 | 9% | 15,908 | 68% |
| Equity in Net Loss of Associate | - | 0% | - | 0% | - | n.a. |
| **Income Before Income Tax** | **239,141** | **61%** | **139,666** | **55%** | **99,474** | **71%** |
| Provision for Income Tax | 48,421 | 12% | 20,178 | 8% | 28,243 | 140% |
| **Net Income** | **190,719** | **49%** | **119,488** | **47%** | **71,231** | **60%** |
| Other Comprehensive Income (Loss) | (12,101) | -3% | (4) | 0% | (12,097) | 323530% |
| **Total Comprehensive Income** | **178,619** | **46%** | **119,484** | **47%** | **59,135** | **49%** |

## Summary

The consolidated revenues of the Company and its Subsidiary (the "Group") for the year ended December 31, 2014 amounted to ₱392.22 million, 56% higher than the previous year's same period level of ₱252.06 million. The main growth driver was the mobile content service segment which accounts for 79% of total revenues or ₱309.37 million for the year ended December 31, 2014, growing 63% from 2013.

Cost of Service increased by 28% from ₱89.08 million for year ended December 31, 2013 to ₱113.87 million in 2014, and percentage of revenues decreased from 35% to 29% in 2014. This resulted in the improvement of the gross profit margin from 65% to 71% or from ₱162.97 million to ₱278.35 million, which is a 71% increase. On the other hand, notwithstanding the 68% increase in general and administrative expenses from ₱23.31 million for the year ended December 31, 2013 to ₱39.21 million in 2014, its proportion to the revenues slightly increased to 10%, thus giving the Group, Income Before Income Tax margins of 55% and 61% for the years ended December 31, 2013 and December 31, 2014, respectively. Net income margins were kept at very healthy levels of 47% and 49% for the years ended December 31, 2013 and 2014, respectively.

Total comprehensive income increased from ₱119.49 million for the year ended December 31, 2013 to ₱178.61 million in 2014, an increase of 49%.

## Revenues

For the year ended December 31, 2014, total consolidated revenues of the Group amounted to ₱392.22 million, an increase of ₱140.16 million or 56% higher than the previous year's level of ₱252.06 million. Majority of the Group's revenues or ₱378.32 million came from service income.

Service income pertains to revenues earned from (i) its mobile consumer products and services segment (i.e., revenues ultimately derived from providing mobile consumer content and services via the Telcos) and (ii) mobile enterprise services segment (i.e., revenues derived from the provision of mobile platform solutions to corporate and government clients).

Service income from the mobile consumer products and services segment for the year ended December 31, 2014 amounted to ₱309.37 million, higher by ₱119.36 million or 63% against the previous year's level of ₱190.01 million. Service income from mobile enterprise services segment also increased to ₱68.95 million for the year ended December 31, 2014 from the ₱61.80 million level recorded for the year ended December 31, 2013.

The increase in service income was driven primarily by the relentless marketing activity of the Group to push its mobile consumer content products and services, such as mobile games through the Group's innovative games platform (e.g. "GlobeGameswithFriends", "Grab-a-Gold", and others).

Interest income for the year ended December 31, 2014 amounted to ₱1.19 million, higher compared to the previous year's level of ₱0.18 million. Interest income pertains to the interest generated by the Group from its cash in banks and cash equivalents.

**Expenses**

The Group's consolidated expenses for the year ended December 31, 2014 amounted to ₱153.08 million, higher by ₱40.69 million or 36% compared to the previous year's same period level of ₱112.39 million. Cost of services accounted for the bulk of expenses amounting to ₱113.87 million or 74% of the total.

Cost of services was mainly driven by expenses relating to (i) salaries, wages and employee benefits and (ii) outsourced services, which for 2014 accounted for 37% and 32%, respectively. This relates to the Group's rendering of mobile consumer products and services and mobile enterprise services to its clients during the year.

Salaries, wages, and employee benefits amounted to ₱42.25 million in 2014 and are mainly attributed to the services rendered by Digital Storm, Inc. ("Digital Storm"), an entity under common control, in favor of the Company. These services include the promotion of mobile applications jointly developed with the Group and assistance in the deployment of such applications in the Group's programs and events.

General and administrative expenses (such as salaries, wages and employee benefits, professional fees, transportation and travel, supplies, taxes and licenses, depreciation and amortization, rent, repairs and maintenance, utilities, among others) relating to the Group's day-to-day operations, on the other hand, amounted to ₱38.21 million in 2014, higher by ₱15.91 million or 68% compared to the previous year's level of ₱23.31 million. Approximately half of the increase is attributable to the transaction costs incidental to the Company's initial public offering (IPO) amounting to ₱7.35 million which were charged to general and administrative expenses.

**Net Income before Tax**

The Group posted a consolidated net income before tax of ₱239.14 million in 2014, significantly higher by ₱99.47 million or 71% compared to the ₱139.67 million level recorded for the year ended December 31, 2013.

**Provision for Income Tax**

Provision for income tax amounted to ₱48.42 million, higher by ₱28.24 million compared to the previous year's level of ₱20.18 million as a result of higher taxable income during the year.

**Net Income**

The Group posted a consolidated net income of ₱190.72 million for the year ended December 31, 2014, higher by ₱71.23 million or 60% more than the ₱119.49 million level posted for the year ended December 31, 2013 in view of the robust revenues generated by the Group during 2014 while managing the increase in total expenses. Core earnings, which net out transaction costs incidental to the IPO amounting to ₱7.35 million, amounted to ₱195.91 million or a 64% increase from the net income of the previous year.

The share of the mobile consumer products and services segment, net of intersegment adjustments, in the Group's consolidated net income amounted to ₱166.01 million or 87% of the total consolidated net income for the year ended December 31, 2014, ₱66.80 million higher than the ₱99.20 million share in consolidated net income for the year ended December 31, 2013. The share of the mobile enterprise services segment in the consolidated net income for the period, meanwhile, amounted to ₱24.71 million or 13% of the total, which is higher by ₱4.43 million compared to the ₱20.28 million share in net income posted for the year ended December 31, 2013.

**Financial Position**

*As of December 31, 2014 compared to as of December 31, 2013*

In ₱000,000

| | 31-Dec | | Amount | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | % Increase |
| | | | | |
| Current assets | 1,602.35 | 172.25 | 1,430.10 | 830% |
| Noncurrent assets | 52.11 | 10.61 | 41.50 | 391% |
| Total assets | 1,654.46 | 182.86 | 1,471.60 | 805% |
| | | | | |
| Current liabilities | 129.04 | 51.86 | 77.18 | 149% |
| Noncurrent liabilities | 34.86 | 14.11 | 20.75 | 147% |
| Total liabilities | 163.9 | 65.97 | 97.93 | 148% |
| Stockholders' equity | 1,490.56 | 116.89 | 1,373.67 | 1175% |
| Total liabilities and stockholders' equity | 1,654.46 | 182.86 | 1,471.60 | 805% |

**Assets**

*Current Assets*

*Cash and Cash Equivalents*

The Group's consolidated cash and cash equivalents amounted to ₱957.92 million as of December 31, 2014, an increase of 1,007% or ₱871.41 million from consolidated cash and cash equivalents amounting to ₱86.50 million as of December 31, 2013. The increase was due mainly to the proceeds received by the Company in its IPO.

*Accounts receivables*

The Group's consolidated accounts receivables amounted to ₱138.69 million and ₱83.43 million as of December 31, 2014 and December 31, 2013, respectively, representing an increase of 66% or ₱55.25 million. Trade receivables mainly accounted for most of the total at ₱137.11 million, which is mainly attributed to the receivables from Globe Telecom and other companies for services rendered by the Group's mobile consumer content and services segment and mobile enterprise services segment. These trade receivables are non-interest bearing and are generally settled on a 30- to 60-day term.

*Financial assets at fair value through profit or loss (FVPL)*

During the year, the Group invested ₱500.00 million from the IPO proceeds of the Company in the SB Peso Money Market Fund (the Fund) which is structured as a money market UITF. As of December 31, 2014, the total Net Asset Value (NAV) and fair value of the Fund amounted to ₱500.43 million.

*Other Current Assets*

The Group's consolidated other current assets amounted to ₱5.31 million, an increase of ₱3.00 million or 129.49% from the consolidated other current assets level of ₱2.31 million as of December 31, 2013. The increase was mainly due to the increase in the level of deferred input value-added tax (₱3.66 million), refundable deposits (₱1.02 million), and prepaid expenses (₱0.63 million) during the year compared to end December 2013 levels.

Deferred input VAT represents deferral of input VAT related to the unpaid balances of the services availed by the Group. These will be recognized as input VAT and applied against output VAT upon payment. Any remaining balance is recoverable in the future periods. Refundable deposits pertain to security deposits that can be refunded within one year upon the termination of the lease contract. Prepaid expenses mainly include prepayments of rentals, membership dues and taxes.

*Investment in an Associate*

During the year, the Group acquired 21.78% stake for 24.69 million ordinary shares in Altitude Games PTE Ltd ("Altitude Games"), a Singaporean IT company engaged in computer game development and publishing, for a total consideration of US$740,800 or US$0.03 per share.

*Property and Equipment*

The Group's consolidated property and equipment was ₱8.92 million as of December 31, 2014, representing a significant increase of 109% from the ₱4.26 million level as of December 31, 2013. Property and equipment mainly consisted of transportation, office and information technology equipment and furniture and fixtures. The evident escalation in property and equipment is mainly attributable to the additional leasehold improvements incurred by the Group in their new rented office spaces.

*Deferred Tax Assets - net*

The Group's consolidated net deferred tax assets level amounted to ₱4.97 million as of December 31, 2014, higher by ₱2.56 million compared to the ₱2.40 million level as of December 31, 2013. The Group's net deferred tax assets consisted primarily of deferred tax assets on pension liability amounting to ₱4.41 million as of December 31, 2014.

*Other Noncurrent Assets*

Other noncurrent assets amounted to ₱1.18 million as of December 31, 2014, an increase of ₱1.06 million from the ₱0.12 million level recorded as of December 31, 2013 due to security deposits paid for the Group's rental of new office space and advance rentals.

**Liabilities**

*Accounts and Other Payables*

The Group's consolidated accounts and other payables stood at ₱106.43 million as of December 31, 2014, an increase of ₱67.99 million or 177% compared to the ₱38.44 million level as of December 31, 2013. The Group's accounts and other payables consisted mainly of taxes payable (₱66.05 million), payable to related parties (₱15.24 million), deferred output VAT (₱10.06 million), trade payables (₱9.26 million), accrued expenses (₱5.41 million) and other payables (₱0.42 million).

The substantial increase in taxes payable was primarily caused by the accrual of percentage tax on proceeds of IPO amounting to ₱54.63 million.

*Income Tax Payable*

The Group's consolidated income tax payable as of December 31, 2014 amounted to ₱22.61 million, representing an increase of 69% or ₱9.19 million compared to the ₱13.42 million income tax payable level as of December 31, 2013.

*Deferred Tax Liabilities-net*

The Group's consolidated net deferred tax liabilities was ₱9.21 million as of December 31, 2014, an increase from the consolidated net deferred tax liabilities of ₱7.27 million as of December 31, 2013. The deferred tax liabilities primarily pertained to deferred tax liabilities on the accrued income and unrealized foreign exchange currency gain posted by the Group during the year.

*Pension Liabilities*

The Group's consolidated pension liabilities amounted to ₱25.65 million and ₱6.84 million as of December 31, 2014 and 2013, respectively. The significant increase was mainly attributable to the increase in actuarial loss recognized during the year amounting to ₱17.29 million.

**Equity**

*Total Equity*

The Company's total equity expanded to ₱1,490.56 million as of December 31, 2014, an increase of ₱1,373.67 million or 1,175% compared to the ₱116.89 million recorded as of December 31, 2013. The increase was basically driven by the issuance of new shares in view of the Company's IPO. Total proceeds received from issuances throughout the year amounted to ₱1,388.47 million.

In 2014, the Group obtained an actuarial valuation based on PAS19R. The Company recognized restatement on retained earnings and actuarial loss on pension liabilities as of December 31, 2013 amounting to ₱0.34 million and ₱0.01 million, respectively.

**Key Performance Indicators**

The following are the key performance indicators of the Group:

| In Percentage | For the year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| **Liquidity Ratios** | | |
| Current Ratio | **1242%** | **332%** |
| Quick Ratio | **1238%** | **328%** |
| **Asset-to-Equity Ratio** | **111%** | **156%** |
| **Profitability Ratios** | | |
| Net Income Margin | **49%** | **47%** |
| Gross Margin | **71%** | **65%** |
| Operating Margin | **61%** | **55%** |
| Return on Total Assets | **12%** | **64%** |
| Return on Equity | **13%** | **102%** |

**Current Ratios**

Both current ratio and quick ratio increased in 2014 due to higher increase in current assets of 830% as compared to current liabilities of 149% (see Management's Discussion and Analysis of Financial Condition).

**Asset-to-equity Ratio**

The slight decrease in asset-to-equity ratio, from 169% in 2013 to 112% in 2014, resulted from escalation in equity caused by issuances of new shares in light of the Company's IPO.

**Profitability Ratios**

Slight escalation in profitability ratios particularly in net income margin (48%), gross margin (70%), and operating margin (64%) arose from the continuing growth in the Group's revenue.

Meanwhile, the apparent decrease both in return on total assets (20%) and return on equity (23%) were brought about by the issuance of additional shares throughout the year in light with the Company's IPO.

The manner by which the Company calculates the foregoing indicators is as follows:

**Current Ratios**

3. Current ratio $$\frac{\text{Current assets}}{\text{Current liabilities}}$$

4. Quick ratio $$\frac{\text{Current assets} - \text{Other current assets}}{\text{Current liabilities}}$$

**Asset-to-equity Ratio** $$\frac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$$

**Profitability Ratios**

| | | |
|---|---|---|
| 6. | Net income ratio | Net income attributable to Parent Company / Service income |
| 7. | Gross margin | Service income - Cost of services / Service income |
| 8. | Operating margin | Earnings before interest, tax, depreciation and amortization / Service income |
| 9. | Return on total assets | Net income attributable to Parent Company / Average total assets |
| 10. | Return on total equity | Net income attributable to Parent Company / Average total equity attributable to the Parent Company |

**ITEM 7. Financial Statements**

Please see the attached consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules.

**ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no changes in and disagreements with accountants on accounting and financial disclosure.

**Independent Public Accountants, External Audit Fees and Services**

The consolidated financial statements of the Group as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 were audited by SGV & Co., independent auditors, in accordance with Philippine Standards on Auditing (PSA).

SGV & Co. has acted as the Group's independent auditors since 2008. Jessie D. Cabaluna is the current audit partner for the Group and has served as such since 2013. The Company has not had any material disagreement on accounting and financial disclosure with SGV & Co. for the periods stated above or during interim periods. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In relation to the audit and review of the Company's annual consolidated financial statement, the Audit Committee shall, among other activities, (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company; (ii) ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors; and (iii) ensure the compliance of the Company with acceptable auditing and accounting standards and regulation.

The aggregate fees billed for each of the last two calendar years for professional services rendered by the external auditor were ₱800,000 and ₱450,000 for 2015 and 2014, respectively. The audit fees for 2016 are estimated to be at ₱800,000. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, tax consultancy and assistance in the preparation of annual income tax returns.

The Audit Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the Audit Committee's recommendation.

## PART III - CONTROL AND COMPENSATION INFORMATION

### ITEM 9. Directors and Executive Officers of the Issuer

### BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The overall management and supervision of the Company is undertaken by the Board. The Board is composed of seven members, two of whom are independent directors. The term of a director is one year from date of election and until their successors are elected and qualified.

As of December 31, 2015, the composition of the Company's Board is as follows:

| Name | Age | Citizenship | Position | Year Position was Assumed |
|---|---|---|---|---|
| Nico Jose S. Nolledo | 38 | Filipino | Chairman, President and Chief Executive Officer | 2001 |
| Raymond Gerard S. Racaza | 38 | Filipino | Director, Treasurer and Chief Operating Officer | 2001 |
| Fernando Jude F. Garcia | 42 | Filipino | Director and Chief Technology Officer | 2001 |
| Wilfredo Oposa Racaza | 68 | Filipino | Director | 2001 |
| Mercedita S. Nolledo | 74 | Filipino | Director | 2001 |
| Jonathan Gerard A. Gurango | 58 | Filipino | Independent Director | 2014 |
| Alvin D. Lao | 44 | Filipino | Independent Director | 2014 |

Each of the Company's directors was elected to the Board during the Company's annual stockholders' meeting held on May 27, 2015. Each director shall remain in office until the next annual meeting of the stockholders of the Company or his or her removal or resignation as may be allowed under law.

The table below sets forth the Company's executive officers in addition to its executive directors listed above as of December 31, 2015:

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Jose Vicente T. Colayco | 46 | Filipino | Chief Business Development Officer |
| Alfonso A. Tagaysay | 42 | Filipino | Chief Marketing Officer |
| Alexander D. Corpuz | 49 | Filipino | Chief Finance Officer |
| Mark S. Gorriceta | 38 | Filipino | Corporate Secretary and Chief Legal Officer |

The following discussion presents a brief description of the business experience of each of the Company's directors and executive officers.

**Nico Jose S. Nolledo,** Filipino, 38, President, Chief Executive Officer and Chairman of the Board since 2001

Mr. Nolledo is the Chairman and Chief Executive Officer of Xurpas, the largest listed consumer technology company in a Southeast Asian Stock Exchange. He is also the Philippine venture partner of Wavemaker Partners, a member of the Draper Network which gives him a pulse on the latest innovations in global technology. Mr. Nolledo is the first Filipino Entrepreneur chosen by the Endeavour network. He is also the Ernst and Young's 2015 Philippine Entrepreneur of the year and was chosen as one of the Top Outstanding Yong Men ("TOYM") in the Philippines in 2015. Mr. Nolledo holds a Bachelor of Science degree in Management from Ateneo de Manila University.

**Raymond Gerard S. Racaza**, Filipino, 38, Chief Operating Officer and Director of the Company since 2001.

Mr. Racaza is co-founder of the Company and has been its Treasurer and Chief Operating Officer since November 2001. He is responsible for the overall business operations of the Company, such as carrier-relationship management, marketing, product design, and other core Company services. Before founding the Company, he was a Senior Solutions Consultant of Wireless Internet Solutions, Inc. and was part of the original development team of iAyala that built the first Wireless Application Protocol (WAP) site in the Philippines. Mr. Racaza holds a Bachelor of Science degree in Computer Science, Major in Information Technology from De La Salle University.

**Fernando Jude F. Garcia**, Filipino, 42, Chief Technology Officer and Director of the Company since 2001.

Mr. Garcia is co-founder of the Company and has been its Chief Technology Officer since 2001. He served as Corporate Secretary of the Company until December 2014. He created the Company's Griffin Platform, the mobile consumer content gateway and platform for all of the Company's mobile consumer content products and services. He also created the Company's modular middleware system that can easily integrate with any modern billing gateway. He is the chief engineer responsible for the Company's software architecture and systems integration. Examples of such systems and protocols are the following: for SMS (CIMD2/EMIUCP/SMPP), for MMS (EIAF/MM7), for Voice Services (SIP), for Billing/IN (Diameter/UCIP/ParlayX2.1) and Security (IPSEC). Before founding the Company, he was a software developer in iAyala. Mr. Garcia holds a Bachelor of Science degree in Applied Physics from the University of the Philippines in Diliman, Quezon City.

**Wilfredo O. Racaza**, Filipino, 68, Director of the Company since 2001.

Mr. Racaza has 45 years of marketing and finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. He is currently an insurance executive in Manulife Financial Philippines for the last 29 years up to present. He has garnered numerous accolades and awards such as multiple Branch of the Year awards and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to 2014. Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University in Cagayan de Oro City.

**Mercedita S. Nolledo**, Filipino, 74, Director of the Company since 2001.

Atty. Nolledo is currently a director of Bank of the Philippine Islands, BPI Family Savings Bank and BPI Capital Corporation, Anvaya Golf and Nature Club, Inc., Honda Cars Makati, Inc., Automotive Isuzu Dealership, Iconic Dealership, Inc. and Ayala Automotive Holdings. She is an independent director of D&L Industries, Inc. She is the Chairman of BPI Investment Management Corporation. She is a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. She has served as a director of Cebu Holdings, Inc. from 1993 to 2006 and of Ayala Corporation from 2004 to 2010. Atty. Nolledo was formerly Corporate Secretary and General Counsel of the Ayala Group of Companies and the Senior Managing Director of the Ayala Corporation. She served as Executive Vice President, director and Corporate Secretary of Ayala Land, Inc. and as the firm's Treasurer. Atty. Nolledo placed second in the Certified Public Accountant exams in 1960 and also placed second in the 1965 bar exams. She holds a Bachelor of Science degree in Business Administration, magna cum laude, from the University of Philippines. Atty. Nolledo holds a Bachelor of Laws degree, cum laude, from the University of the Philippines.

**Jonathan Gerard A. Gurango**, Filipino, 58, Independent Director of the Company since 2014.

Mr. Gurango has a solid track record in forming and running successful software companies. He founded Match Data Systems (MDS) in Seattle, USA in 1987, MDS Philippines in 1991, and MDS Australia in 1996. In 1999, he sold MDS to Great Plains Software, which was acquired by Microsoft in 2001. Mr. Gurango served as the Asia Pacific Regional Director for Microsoft Business Solutions, before he left in 2003 to form Gurango Software. In 2007, he was inducted into the Hall of Fame for Microsoft's Most Valuable Professionals, in recognition of his mastery of software technology and business. In 2006, the Philippine Center for Entrepreneurship acknowledged him as one of the country's Ten Most Inspiring Technopreneurs. In addition to leading Gurango Software as the most successful Microsoft Dynamics partner in the Philippines, he has co-founded several other software start-ups such as SPRING.ph, and is currently the President of the Philippine Software Industry Association. Mr. Gurango holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines, Diliman, Quezon City. He also obtained his Bachelor of Science degree in Electrical Engineering from the University of Washington.

**Alvin D. Lao**, Filipino, 44, Independent Director since 2014.

Mr. Lao is the Executive Vice President and the Chief Financial Officer of D&L Industries, Inc. He is also the Chief Financial Officer and Treasurer of Chemrez Technologies Inc. He serves as Director of Axis REIT, a real estate investment trust listed in Malaysia and as a Vice President of the Technology Club of the Philippines (Philippine alumni of the Massachusetts Institute of Technology), and is a past president and current member of the Entrepreneurs Organization (EO, Philippine Chapter). He is also a member of the Financial Executives Institute of the Philippines (FINEX) and the Wallace Business Forum. He is a director of Enderun Colleges, Gurango Software Corporation, First in Colours, Incorporated, D&L Polymer and Colours, Incorporated, FIC Tankers Corporation, Ecozone Properties, Inc., Anonas LRT Property and Dev't Corp., Hotel Acropolis, Inc and Star Anise Properties Corporation. He graduated from the University of Western Australia with a Bachelor of Science degree in Information Technology (Honours) and Statistics. He also holds a Masters degree in Business Administration from the MIT Sloan School of Management.

**Jose Vicente T. Colayco**, Filipino, 46, Chief Business Development Officer of the Company since 2014.

Before joining the Company, Mr. Colayco was the co-founder and co-managing director of Digital Storm, Inc., a developer of online casual game platforms. He was the President of 888 Creative Studios (a subsidiary of Information Gateway, Inc.) from 2004 to 2010, during which time he led the management of relationships with foreign and local licensors from the music, motion picture and game industries. He also served as Managing Director for EMI Music Philippines and Marketing Director for Sony Music Philippines. He holds a Bachelor of Arts degree in Philosophy and Religious Studies from Brown University, Magna Cum Laude. He obtained his Masters in Business Administration from Harvard Business School in Boston, Massachusetts.

**Alfonso A. Tagaysay**, Filipino, 42, Chief Marketing Officer of the Company since 2014.

Mr. Tagaysay has 15 years of experience in the mobile consumer content industry, managing mobile companies operating in various Southeast Asian markets: Philippines, Indonesia, Malaysia and Bangladesh. Before joining the Company, he was the co-founder and co-managing director of Digital Storm, Inc. From 2004 to 2010, he was a Managing Director of Information Gateway, Inc.. From 2000-2004, he was with Globe Telecom as Director. Prior to mobile, he worked in advertising with McCann Erickson from 1997 to 2000. Mr. Tagaysay holds a Bachelor of Arts, Management Economics degree from Ateneo de Manila University.

**Mark S. Gorriceta,** Filipino, 38, Corporate Secretary, Chief Legal Officer and Assistant Chief Compliance Officer of the Company since 2014.

Atty. Gorriceta has been in the practice of law for twelve years. He also acts as legal counsel to several listed companies, its subsidiaries or affiliates, such as A. Brown, Inc. and the Metro Pacific Tollways Group. He heads the Corporate and Tax departments of Gorriceta Africa Cauton & Saavedra Law Offices. He was formerly connected with the Law Firm of Quiason Makalintal Barot Torres & Ibarra. He is also a member of the Tax Management Association of the Philippines. A member of the Philippine Bar, he holds a Bachelor of Arts, Political Science degree from the Ateneo de Manila University. He also attended certificate courses in Finance at the Asian Institute of Management in Makati City. Atty. Gorriceta is currently enrolled in Harvard University's certificate program in Corporate Finance.

**Alexander D. Corpuz,** Filipino, 49, Chief Finance Officer, Chief Information Officer and Chief Compliance Officer of the Company since 2014.

Mr. Corpuz has 23 years of experience in the field of finance, nine years of which was in investment and commercial banking. He was Vice President of Bank of America in 2001, before serving as CFO for Liberty Telecoms, Information Gateway, Mañosa Group of Companies and Hatchd Inc. Mr. Corpuz holds a Bachelor of Science in Business Administration degree from University of the Philippines, Diliman, Cum Laude. He obtained his Masters in Business Management from the Asian Institute of Management, Makati City. He is a member of the Financial Executives Institute of the Philippines (FINEX).

**Significant Employees**

While the Company values the contribution of each executive and non-executive employee, there is no non-executive employee that the resignation or loss of whom would have a significant adverse effect on the business of the Company. Other than standard employment contracts, there are no arrangements with non-executive employees that will assure the continued stay of these employees with the Company.

**Family Relationships**

Ms. Mercedita S. Nolledo, a member of the Board, is the mother of Mr. Nico Jose S. Nolledo, the Company's President and Chairman of the Board. Likewise, Mr. Wilfredo O. Racaza, a member of the Board, is the father of Mr. Raymond Gerard S. Racaza, a director, and the Company's Treasurer and Chief Operating Officer.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among the Company's directors and executive officers.

**Involvement in Certain Legal Proceedings**

The Company is not aware of any adverse events or legal proceedings during the past five years that are material to the evaluation of the ability or integrity of its directors or executive officers. To the best knowledge of the Company, none of its present directors or executive officers has been subject to the following:

- Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

- Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- Any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities, commodities, or banking activities; or
- Found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

**ITEM 10. Executive Compensation**

Since its incorporation in 2001, the Company's directors (other than reasonable per diem for nonexecutive directors as discussed below) have not received any salary or compensation for their services as directors.

The following table summarizes the aggregate compensation received by the top five executive officers of the Company for the years 2011, 2012, 2013 and 2014:

| | | Estimated | | | |
|---|---|---|---|---|---|
| | | **Salary** | **Bonus** | **Other** | **Total** |
| **Name** | **Position** | | | | |
| Nico Jose S. Nolledo | President & Chief Executive Officer | | | | |
| Fernando Jude F. Garcia | Corporate Secretary & Chief Technology Officer | | | | |
| Raymond Gerard S. Racaza | Treasurer & Chief Operating Officer | | | | |
| Jose Vicente T. Colayco | Chief Business Development Officer | | | | |
| Alfonso A. Tagaysay | Chief Marketing Officer | | | | |
| Total | 2016 (Projected) | P29,333,185.00 | N/A | N/A | P29,333,185.00 |
| | 2015 | P29,390,786.72 | N/A | N/A | P29,390,786.72 |
| | 2014 | P10,351,294.00 | N/A | N/A | P10,351,294.00 |
| | 2013 | N/A | N/A | N/A | N/A |
| | 2012 | N/A | N/A | N/A | N/A |

The total annual compensation consists of basic pay and other taxable income.

The Company's executive officers have no other remuneration aside from the compensation described above.

**<u>Compensation of Directors</u>**

Standard Arrangements

For Board meetings, the Chairman gets a ₱25,000 per diem, while the directors get ₱20,000. For committee meetings, the Chairman gets ₱12,500 and his members, ₱10,000. There are no other standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

**Other Arrangements**

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, for any services provided as a director.

**Employment Contracts with Executive Officers**

There are no special employment contracts between the Company and its named executive officers.

**Warrants and Options Held by the Executive Officers and Directors**

As of December 31, 2015, there are no outstanding warrants or options for the Common Shares held by the executive officers and directors of the Company.

Except as described above, there are no other arrangements pursuant to which any of the Company's directors and executive officers was compensated, or is to be compensated, directly or indirectly.

**ITEM 11. Security Ownership of Certain Beneficial Owners and Management**

Security ownership of management and certain record and beneficial owners of more than 5% of the Company's voting securities are as follows:

| Title of Class | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares and Nature of Ownership (Direct or Indirect) | Percent of Class |
|---|---|---|---|---|---|
| Common | **Nico Jose S. Nolledo** Urdaneta Apartments, Ayala Avenue, Makati City (Chairman, President and Chief Executive Officer) | Nico Jose S. Nolledo | Filipino | 441,665,960 (Direct) | 25.678% |
| Common | **Raymond Gerard S. Racaza** One Salcedo Place, J. Velasquez St., Salcedo Village, Makati City (Treasurer and Chief Operating Officer) | Raymond Gerard S. Racaza | Filipino | 441,665,960 (Direct) | 25.678% |
| Common | **Fernando Jude F. Garcia** North Lane, Jem 2 Subd., Tandang Sora, Quezon City (Chief Technology Officer) | Fernando Jude F. Garcia | Filipino | 441,665,960 (Direct) | 25.678% |
| Common | **PCD Nominee Corp.** | PCD participants acting for themselves and for their customers | Filipino | 213,084,165 (Direct) | 12.389% |
| Common | **PCD Nominee Corp.** | PCD participants acting for themselves and for their customers | Non-Filipino | 181,904,471 (Direct) | 10.576% |

**Voting Trust**

The Company is not aware of any person holding more than 5% of shares under a voting trust or similar agreement.

**Change in Control**

The Company is not aware of any arrangements that may result in a change in control of the Company.

**ITEM 12. Certain Relationships and Related Transactions**

Except as described elsewhere in this document, there are no significant related party transactions involving the Company.

## PART IV – CORPORATE GOVERNANCE

**ITEM 13. Corporate Governance**

The detailed discussion of this Section has been dispensed with pursuant to SEC Memorandum Circular No. 5, Series of 2013 dated March 20, 2013 and replaced with the Annual Corporate Governance Report ("ACGR"). As a company that has been admitted on the Philippine Stock Exchange on December 2, 2014, the full and complete Annual Corporate Governance Report shall be submitted by the Company to the Securities and Exchange Commission ("SEC") and the Philippine Stock Exchange, Inc. ("PSE") and shall be made available on the Company's website on or before the prescribed deadline which is on May 30, 2016 pursuant to the filing dates prescribed under SEC Memorandum Circular No. 3, Series of 2015 dated January 14, 2015.

## PART V - EXHIBITS AND SCHEDULES

### ITEM 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits – See accompanying Index to Exhibits

The other exhibits as indicated in the Exhibit Table of Revised Securities Act Forms are either not applicable to the Company or require o answer.

(b) Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed during the last six months of 2015 and 1st quarter of 2016:

| Date of Report | Items Reported |
|---|---|
| July 14, 2015 | Subscription to 211,656 shares of stock or 21.17% shareholdings in Altitude Games Inc. |
| July 14, 2015 | a) Ratification of subscription to 3,349,996 shares or 67% shareholdings in Xeleb Inc.; and<br>b) Press Release: "Xurpas launches Philippines' first celebrity games company". |
| September 1, 2015 | a) Strategic Partnership with Globe Telecom, Inc. ("Globe") with Agreement to acquire Globe's 51% stake in Yondu Inc.; and<br>b) Press Release: Xurpas inks strategic partnership with Globe, to acquire a majority stake in Yondu. |
| September 15, 2015 | a) Acquisition of 51% stake in Yondu Inc; and<br>b) Press Release: "Xurpas and Globe formalize strategic partnership in Yondu after completing closing conditions" |
| September 30, 2015 | Purchase of convertible promissory note for US$500,000 to be issued by Einsights Pte Ltd. |
| October 15, 2015 | Business Plan Report |
| November 11, 2015 | Approval of Consolidated Unaudited Financial Statements of Xurpas Inc. for the third quarter of 2015. |
| November 13, 2015 | Press Release: "Xurpas revenues surge 84%, surpassing Php0.50 billion mark" |
| December 4, 2015 | Amendment of previous disclosures to update Xurpas Inc.'s percentage shareholdings in Quick.ly, Inc. from the previously disclosed 4.5% to 4.8% on a fully diluted basis. |
| December 11, 2015 | Press Release: Aldub is now a mobile game! Tape partners with Xurpas to create mobile content: "AldubYou: Ang Hamon ni Lola Nidora." |
| January 15, 2016 | Business Plan Report |
| January 20, 2016 | Approval of the Proposed Employee Stock Option Plan subject to further revisions |
| February 16, 2016 | a) Approval of Incorporation of Xurpas Enterprise Inc. and Subsequent Subscription of its Shares of Stock;<br>b) Approval of the holding of the 2016 Annual Stockholders' Meeting on May 11, 2016, 9:00 a.m. at the Main Lounge of the Manila Polo Club, Mckinley Road, Makati City; and<br>c) Notice and Agenda of the Annual Stockholders' Meeting |
| March 8, 2016 | a) Acquisition of 718,333 new Series C Preferred Shares equivalent to a 23.53% (fully-diluted) stake in Micro Benefits Limited and |

| | |
|---|---|
| | b) Press Release: Xurpas Inc. intensifies HR technology push with its investment in Hong Kong-based Micro Benefits Limited |
| March 9, 2016 | List of Stockholders entitled to Notice for the Annual Stockholders' Meeting. |
| March 29, 2016 | a) Approval of 2015 audited financial statements;<br>b) Re-appointment of SyCip Gorres Velayo & Co. as external auditor.<br>c) Press Release: "Xurpas FY2015 revenues more than doubles to P921 million" |
| March 30, 2016 | Amendment to reflect in the disclosure that the Starting Date for Closing of Books for the Annual Stockholders Meeting is on March 3, 2016. |
| March 31, 2016 | Approval of the incorporation of Xurpas Enterprise Inc. by the Securities and Exchange Commission |

**INDEX TO EXHIBITS**

**Form 17-A**



*These Exhibits are either not applicable to the Company or require no answer.
**Please refer to *Note 2* of the accompanying Notes to the Consolidated Financial Statements for details.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of MANILA 14 APR 2016

By:

**NICO JOSE S. NOLLEDO**
President/ Chief Executive Officer

**RAYMOND GERARD S. RACAZA**
Treasurer/ Chief Operating Officer

**ALEXANDER D. CORPUZ**
Chief Financial Officer

**MARK S. GORRICETA**
Corporate Secretary/ Chief Legal Officer

**ESTRELITA B. LABAN**
Controller

**SUBSCRIBED AND SWORN** to before me this 14 APR 2016 2016 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

| NAMES | PASSPORT NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|
| NICO JOSE S. NOLLEDO | EB 8683342 | July 16, 2013 | DFA Manila |
| RAYMOND GERARD S. RACAZA | EC 2509470 | October 23, 2014 | DFA Manila |
| ALEXANDER D. CORPUZ | EB 9863376 | December 20, 2013 | DFA NCR East |
| MARK S. GORRICETA | EC 5401039 | September 18, 2015 | DFA Manila |
| ESTRELITA B. LABAN | EB 3688595 | September 20, 2011 | DFA Manila |

Doc. No. 101;
Page No. 29;
Book No. 02;
Series of 2016.

ATTY. RICHARD L. ANOLIN
NOTARY PUBLIC until December 31, 2016
FOR CITY OF MANILA PHILIPPINES
IBP LIFETIME NO. 06179/02.25.05/MLA.
PTR NO. 4922461 01/05/16 Mla.
Roll No. 33596
MCLE COMPLIANCE NO. IV-00238501 8/16/14
RODOLFO ANOLIN AND ASSOCIATES LAW OFFICE
2/F YMCA OF MANILA BLDG.
#350 ANTONIO VILLEGAS ST.,
ERMITA MANILA TEL. 525-05-86
EMAIL ADD: attyrichardanolin@yahoo.com

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

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| A | 2 | 0 | 0 | 1 | 1 | 7 | 7 | 0 | 8 | |

**C O M P A N Y   N A M E**

XURPAS INC. AND SUBSIDIARIES

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

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

| 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 |
|---|---|---|
| info@xurpas.com | 889-6467 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 15 | May 11 | 2015 |

**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 |
|---|---|---|---|
| Nico Jose S. Nolledo | nix@xurpas.com | 889-6467 | N/A |

**CONTACT PERSON's ADDRESS**

**7th Floor Cambridge Centre, 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.*

xurpas

**"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS"**

The management of XURPAS INC. AND SUBSIDIARIES (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors (or Board of Trustees) reviews and approves the consolidated financial statements and submits the same to the stockholders (or members).

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders (or members), has expressed its opinion on the fairness of presentation upon completion of such examination.

Nico Js Nolledo

**NICO JOSE S. NOLLEDO**
Chairman of the Board/ Chief Executive Officer

Alexander D. Corpuz

**ALEXANDER D. CORPUZ**
Chief Financial Officer

**ACKNOWLEDGMENT**

REPUBLIC OF THE PHILIPPINES)
MANILA ) S.S.

BEFORE ME, a Notary Public for and in MANILA, this MAR 29 2016 personally appeared:

| Name | Competent Evidence of Identity | Date/Place Issued |
|---|---|---|
| Nico Jose S. Nolledo | Passport No. EB8683342 | July 16, 2013/ DFA Manila |
| Alexander D. Corpuz | Passport No. EB9863376 | Dec. 20, 2013/DFA NCR East |

all known to me and to me known to be the same persons who executed the foregoing Statement of Management Responsibility consisting of two (2) pages, including this page and who acknowledged to me that the same are their true and voluntary act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and place first above written.

Doc No. 213;
Page No. 43;
Book No. 17
Series of 2016.

ATTY. RICHARD L. ANOLIN
NOTARY PUBLIC until December 31, 2016
FOR CITY OF MANILA PHILIPPINES
IBP LIFETIME ... 05/MLA.
PTR NO. ... 01/05/16 Mla.
MCLE COMPLIANCE NO. IV-0027850 8/16/14
... ASSOCIATES LAW OFFICE

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Xurpas Inc.
7th Floor, Cambridge Centre
108 Tordesillas St.
Salcedo Village, Makati City

We have audited the accompanying consolidated financial statements of Xurpas Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 consolidated financial statements present fairly, in all material respects, the financial position of Xurpas Inc. and its subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 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-3 (Group A),
February 14, 2013, valid until April 30, 2016
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

March 29, 2016

## XURPAS INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4 and 24) | **₱305,885,002** | ₱957,917,228 |
| Accounts receivables (Notes 5, 17 and 24) | **756,406,724** | 138,686,070 |
| Financial assets at fair value through profit or loss (Notes 6 and 24) | **80,317,867** | 500,431,059 |
| Available-for-sale financial assets (Notes 7 and 24) | **17,657,123** | – |
| Other current assets | **44,298,472** | 5,311,291 |
| Total Current Assets | **1,204,565,188** | 1,602,345,648 |
| **Noncurrent Assets** | | |
| Available-for-sale financial assets - net of current portion (Notes 7 and 24) | **67,959,956** | 3,827,123 |
| Investments in associates (Note 8) | **102,809,116** | 33,220,576 |
| Property and equipment (Note 9) | **58,183,944** | 8,918,583 |
| Intangible assets (Notes 10 and 20) | **1,888,282,481** | – |
| Deferred tax assets - net (Note 18) | **42,523,636** | 4,967,223 |
| Other noncurrent assets | **30,049,094** | 1,179,491 |
| Total Noncurrent Assets | **2,189,808,227** | 52,112,996 |
| | **₱3,394,373,415** | ₱1,654,458,644 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts and other payables (Notes 11, 17 and 24) | **₱522,744,319** | ₱106,434,122 |
| Loans payable (Notes 12 and 24) | **13,998,370** | – |
| Income tax payable | **39,236,888** | 22,608,350 |
| Liability for written put option (Notes 20 and 24) | **853,181,279** | – |
| Total Current Liabilities | **1,429,160,856** | 129,042,472 |
| **Noncurrent Liabilities** | | |
| Deferred tax liabilities - net (Notes 18 and 20) | **360,587,068** | 9,208,973 |
| Pension liability (Note 19) | **40,873,938** | 25,649,287 |
| Total Noncurrent Liabilities | **401,461,006** | 34,858,260 |
| Total Liabilities | **1,830,621,862** | 163,900,732 |
| **Equity** (Notes 8, 19 and 21) | | |
| Equity attributable to equity holders of Xurpas Inc. | | |
| Capital stock | **172,000,066** | 172,000,066 |
| Additional paid-in capital | **1,219,718,163** | 1,219,718,163 |
| Retained earnings | **250,798,331** | 98,539,176 |
| Net unrealized loss on available-for-sale financial assets (Note 7) | **(210,000)** | (225,000) |
| Cumulative translation adjustment on investments in associates | **6,484,416** | – |
| Retirement benefit reserve | **(8,064,767)** | (10,737,981) |
| Equity reserve | **(848,496,865)** | – |
| | **792,229,344** | 1,479,294,424 |
| Noncontrolling interests (Notes 20 and 22) | **771,522,209** | 11,263,488 |
| Total Equity | **1,563,751,553** | 1,490,557,912 |
| | **₱3,394,373,415** | ₱1,654,458,644 |

*See accompanying Notes to Consolidated Financial Statements.*

## XURPAS INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **INCOME** | | | |
| Service income (Note 13) | **₱824,022,641** | ₱378,315,389 | ₱251,814,243 |
| Sale of goods | **74,351,659** | – | – |
| Interest income (Note 4) | **9,434,640** | 1,187,715 | 174,986 |
| Other income (Notes 6 and 9) | **13,409,452** | 12,715,666 | 67,219 |
| | **921,218,392** | 392,218,770 | 252,056,448 |
| **COST AND EXPENSES** | | | |
| Cost of services (Note 14) | **314,694,526** | 113,864,591 | 89,084,360 |
| Cost of goods sold | **69,811,640** | – | – |
| General and administrative expenses (Note 15) | **196,132,359** | 39,213,640 | 23,305,781 |
| Equity in net loss of associates (Note 8) | **9,479,226** | – | – |
| | **590,117,751** | 153,078,231 | 112,390,141 |
| **INCOME BEFORE INCOME TAX** | **331,100,641** | 239,140,539 | 139,666,307 |
| **PROVISION FOR INCOME TAX** (Note 18) | **101,482,539** | 48,421,091 | 20,178,200 |
| **NET INCOME** | **₱229,618,102** | ₱190,719,448 | ₱119,488,107 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that may be reclassified to profit or loss in subsequent periods:* | | | |
| Unrealized gain (loss) on available-for-sale financial assets (Note 7) | **15,000** | 5,000 | (10,000) |
| Cumulative translation adjustment on investments in associates (Note 8) | **6,484,416** | – | – |
| *Item that will not be reclassified to profit or loss in subsequent periods:* | | | |
| Remeasurement gain (loss) on defined benefit plan (Note 19) | **3,645,986** | (12,105,543) | 6,261 |
| **TOTAL COMPREHENSIVE INCOME** | **₱239,763,504** | ₱178,618,905 | ₱119,484,368 |
| **Net income attributable to:** | | | |
| Equity holders of Xurpas Inc. | **₱221,059,181** | ₱182,070,562 | ₱112,390,678 |
| Noncontrolling interests | **8,558,921** | 8,648,886 | 7,097,429 |
| | **₱229,618,102** | ₱190,719,448 | ₱119,488,107 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of Xurpas Inc. | **₱230,231,811** | ₱171,324,106 | ₱112,394,153 |
| Noncontrolling interests | **9,531,693** | 7,294,799 | 7,090,215 |
| | **₱239,763,504** | ₱178,618,905 | ₱119,484,368 |
| **Basic/Diluted Earnings Per Share** (Note 23) | **₱0.13** | ₱0.17 | ₱0.26 |

*See accompanying Notes to Consolidated Financial Statements.*

# XURPAS INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Year Ended December 31, 2015 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of Xurpas Inc. | | | | | | | | | | |
| | **Capital Stock** (Note 21) | **Additional Paid-in Capital** (Note 21) | **Retained Earnings - Appropriated** (Note 21) | **Retained Earnings - Unappropriated** (Note 21) | **Net Unrealized Loss on Available-for-sale Financial Assets** (Note 7) | **Cumulative translation adjustment on investments in associates** (Note 8) | **Retirement Benefit Reserve** (Note 19) | **Equity Reserve** (Note 21) | **Total** | **Non-Controlling Interest** | **Total Equity** |
| Balance at beginning of year | **₱172,000,066** | **₱1,219,718,163** | **₱–** | **₱98,539,176** | **(₱225,000)** | **₱–** | **(₱10,737,981)** | **₱–** | **₱1,479,294,424** | **₱11,263,488** | **₱1,490,557,912** |
| Appropriations for dividend declaration | – | – | **65,819,709** | **(65,819,709)** | – | – | – | – | – | – | – |
| Cash dividend declaration | – | – | – | **(68,800,026)** | – | – | – | – | **(68,800,026)** | **(8,750,000)** | **(77,550,026)** |
| Recognition of liability for written put option | – | – | – | – | – | – | – | **(848,496,865)** | **(848,496,865)** | – | **(848,496,865)** |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | **759,477,028** | **759,477,028** |
| Net income | – | – | – | **221,059,181** | – | – | – | – | **221,059,181** | **8,558,921** | **229,618,102** |
| Other comprehensive income - net of tax effect | – | – | – | – | **15,000** | **6,484,416** | **2,673,214** | – | **9,172,630** | **972,772** | **10,145,402** |
| Total comprehensive income | – | – | – | **221,059,181** | **15,000** | **6,484,416** | **2,673,214** | – | **230,231,811** | **9,531,693** | **239,763,504** |
| Balance at end of year | **₱172,000,066** | **₱1,219,718,163** | **₱65,819,709** | **₱184,978,622** | **(₱210,000)** | **₱6,484,416** | **(₱8,064,767)** | **(₱848,496,865)** | **₱792,229,344** | **₱771,522,209** | **₱1,563,751,553** |

| | Year Ended December 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of Xurpas Inc. | | | | | | | | |
| | Capital Stock (Note 21) | Additional Paid-in Capital (Note 21) | Retained Earnings - Appropriated (Note 21) | Retained Earnings - Unappropriated (Note 21) | Net Unrealized Loss on Available-for-sale Financial Assets (Note 7) | Retirement Benefit Reserve (Note 19) | Total | Non- Controlling Interest | Total Equity |
| Balance at beginning of year | ₱3,250,000 | ₱– | ₱91,500,000 | ₱13,718,614 | (₱230,000) | ₱13,475 | ₱108,252,089 | ₱8,635,356 | ₱116,887,445 |
| Issuance of common shares through cash subscriptions | 168,750,066 | 1,219,718,163 | – | – | – | – | 1,388,468,229 | – | 1,388,468,229 |
| Appropriations for dividend declaration | | | 97,250,000 | (97,250,000) | – | – | – | – | – |
| Release of appropriation for dividend declaration | | | (188,750,000) | 188,750,000 | – | – | – | – | – |
| Stock dividend | – | – | – | (122,500,000) | – | – | (122,500,000) | – | (122,500,000) |
| Cash dividend | – | – | – | (66,250,000) | – | – | (66,250,000) | (4,666,667) | (70,916,667) |
| Net income | – | – | – | 182,070,562 | – | – | 182,070,562 | 8,648,886 | 190,719,448 |
| Other comprehensive income - net of tax effect | – | – | – | – | 5,000 | (10,751,456) | (10,746,456) | (1,354,087) | (12,100,543) |
| Total comprehensive income | – | – | – | 182,070,562 | 5,000 | (10,751,456) | 171,324,106 | 7,294,799 | 178,618,905 |
| Balance at end of year | ₱172,000,066 | ₱1,219,718,163 | ₱– | ₱98,539,176 | (₱225,000) | (₱10,737,981) | ₱1,479,294,424 | ₱11,263,488 | ₱1,490,557,912 |

| | Year Ended December 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of Xurpas Inc. | | | | | | | | |
| | Capital Stock (Note 21) | Additional Paid-in Capital (Note 21) | Retained Earnings - Appropriated (Note 21) | Retained Earnings - Unappropriated (Note 21) | Net Unrealized Loss on Available-for-sale Financial Assets (Note 7) | Retirement Benefit Reserve (Note 19) | Total | Non- Controlling Interest | Total Equity |
| Balance at beginning of year | ₱3,250,000 | ₱– | ₱– | ₱25,527,936 | (₱220,000) | ₱– | ₱28,557,936 | ₱7,961,808 | ₱36,519,744 |
| Appropriations for dividend declaration | | | 91,500,000 | (91,500,000) | – | – | – | – | – |
| Cash dividend | – | – | – | (32,700,000) | – | – | (32,700,000) | (6,416,667) | (39,116,667) |
| Net income | – | – | – | 112,390,678 | – | – | 112,390,678 | 7,097,429 | 119,488,107 |
| Other comprehensive income - net of tax effect | – | – | – | – | (10,000) | 13,475 | 3,475 | (7,214) | (3,739) |
| Total comprehensive income | – | – | – | 112,390,678 | (10,000) | 13,475 | 112,394,153 | 7,090,215 | 119,484,368 |
| Balance at end of year | ₱3,250,000 | ₱– | ₱91,500,000 | ₱13,718,614 | (₱230,000) | ₱13,475 | ₱108,252,089 | ₱8,635,356 | ₱116,887,445 |

*See accompanying Notes to Consolidated Financial Statements.*

# XURPAS INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱331,100,641** | ₱239,140,539 | ₱139,666,307 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 9, 10, 14 and 15) | **14,334,419** | 2,810,842 | 2,190,522 |
| Pension expense (Note 19) | **6,959,464** | 1,514,237 | 1,393,492 |
| Equity in net loss of associates (Note 8) | **9,479,226** | – | – |
| Provision for impairment losses (Note 15) | **3,487,562** | 1,828 | 317,424 |
| Interest expense (Note 15) | **5,612,191** | – | – |
| Unrealized foreign currency exchange loss (gain) | **245,051** | (4,436) | (67,219) |
| Unrealized gain from financial assets at FVPL (Note 6) | **(317,867)** | (431,059) | – |
| Gain from disposal of assets (Note 9) | **–** | (58,517) | – |
| Realized gain on financial assets at fair value through profit or loss (Note 6) | **(5,473,524)** | – | – |
| Interest income (Note 4) | **(9,434,640)** | (1,187,715) | (174,986) |
| Operating income before changes in working capital | **355,992,523** | 241,785,719 | 143,325,540 |
| Changes in working capital: | | | |
| Decrease (increase) in: | | | |
| Accounts receivables | **21,334,209** | (54,752,342) | (30,727,836) |
| Other current assets | **13,148,984** | (2,996,903) | (1,008,174) |
| Increase (decrease) in accounts and other payables | **(276,928,459)** | 52,753,107 | 16,376,248 |
| Net cash generated from operations | **113,547,257** | 236,789,581 | 127,965,778 |
| Interest received | **9,938,750** | 683,605 | 174,986 |
| Income taxes paid | **(156,205,991)** | (34,665,601) | (16,815,167) |
| Net cash provided by (used in) operating activities | **(32,719,984)** | 202,807,585 | 111,325,597 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from redemption of investments in financial assets at FVPL | **505,904,583** | – | – |
| Additions to: | | | |
| Available-for-sale financial assets (Note 7) | **(81,774,956)** | – | (3,602,123) |
| Financial assets at FVPL (Note 6) | **(80,000,000)** | (500,000,000) | – |
| Investments in associates (Note 8) | **(72,583,350)** | (17,980,000) | – |
| Intangible assets (Note 10) | **(13,534,939)** | – | – |
| Property and equipment (Note 9) | **(13,305,142)** | (7,447,866) | (3,346,911) |
| Proceeds from disposal of property and equipment | **–** | 58,576 | – |
| Decrease (increase) in other noncurrent assets | **(15,169,222)** | (1,079,740) | 395,626 |
| Acquisition of subsidiaries, net of cash acquired | **(764,426,139)** | – | – |
| Net cash used in investing activities | **(534,889,165)** | (526,449,030) | (6,553,408) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment of short-term loan payable | **(6,628,000)** | – | – |
| Issuance of shares (Note 21) | **–** | 1,377,530,064 | – |
| Transaction cost (Note 21) | **–** | (111,561,835) | – |
| Dividends paid (Notes 21 and 22) | **(77,550,026)** | (70,916,667) | (39,116,667) |
| Net cash provided by (used in) financing activities | **(84,178,026)** | 1,195,051,562 | (39,116,667) |
| **EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH** | **(245,051)** | 4,436 | 67,219 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(652,032,226)** | 871,414,553 | 65,722,741 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **957,917,228** | 86,502,675 | 20,779,934 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱305,885,002** | ₱957,917,228 | ₱86,502,675 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

Xurpas Inc. (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 26, 2001. The principal activities of the Parent Company and its subsidiaries (collectively referred to as the Group) are to develop, produce, sell, buy or otherwise deal in products, goods or services in connection with the transmission, receiving, or exchange of voice, data, video or any form or kind of communication whatsoever.

The Parent Company's registered office address and principal place of business is at 7th Floor, Cambridge Centre, 108 Tordesillas St. Salcedo Village, Makati City. On May 5, 2014, the BOD approved the amended Articles of Incorporation to reflect the change in business address from its previous office address at 1903 Antel 2000 Corporate Centre 121 Valero St. Salcedo Village, Makati City and its principal place of business, which is also registered with BIR is at 24B Trafalgar Plaza, 105 HV Dela Costa St., Salcedo Village, Makati City to the current address. On June 25, 2014, the SEC certified the amended Articles of Incorporation amending the principal place of business.

On November 12, 2014, Philippine Stock Exchange (PSE) has approved the listing of 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.68 million) for initial public offering of Xurpas Inc.

On November 13, 2014, the SEC granted Xurpas Inc. permit to sell or offer its securities which consist of 1,720.00 million common shares.

On December 2, 2014, the Parent Company's shares of stock were listed in the PSE (see Note 21).

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 29, 2016.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Parent Company and its subsidiaries' functional currency. All amounts were rounded off to the nearest peso, except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements of the Group as at December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015 have been prepared in accordance with Philippine Financial Reporting Standard (PFRS).

Basis of Consolidation
The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as at December 31, 2015 and 2014.

The financial statements of the subsidiaries 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 that return through 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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other voter holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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 year are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Noncontrolling interests represent the portion of profit or loss and net assets in a subsidiary not wholly owned and are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity.

Total comprehensive income within a subsidiary is attributed to the noncontrolling interest even if that results in a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions 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 noncontrolling 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.

As of December 31, 2015 and 2014, the consolidated financial statements comprise the financial statement of the Parent Company and the following domestic subsidiaries:

| | Percentage Ownership | | |
|---|---|---|---|
| | **2015** | **2014** | **Principal Activities** |
| Fluxion, Inc. (Fluxion) | 65.00% | 65.00% | Mobile enterprise services |
| Seer Technologies, Inc. (Seer) | 70.00 | − | Mobile enterprise services |
| Codesignate Inc. (Codesignate)* | 52.50 | − | Mobile enterprise services |
| Storm Flex Systems, Inc. (Storm) | 51.06 | − | Human resource management |
| Xeleb Inc. (Xeleb) | 67.00 | − | Mobile consumer services |
| Yondu, Inc. (Yondu) | 51.00 | − | Mobile consumer services and knowledge process outsourcing |

**Codesignate is a 75%-owned subsidiary of Seer. The Group's effective ownership over Codesignate is 52.50%. The Group has determined that it has control over the entity and consolidates the entity on this basis.*

On July 14, 2015, the Parent Company incorporated Xeleb Inc., a mobile games company domiciled in the Philippines. Xeleb was organized primarily to design, develop, test, build, market, distribute, maintain, support, customize, sell and/or sell applications, games, software, digital solutions, whether internet, mobile or other handheld applications, portals, hardware and other related projects and services, except internet provider services, both for proprietary and custom development purposes.

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

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These Amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

*Annual Improvements to PFRSs (2010-2012 cycle)*
These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. Unless otherwise stated, these amendments have no impact on the Group's consolidated 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*
  The Amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Amendments affect disclosures only and have no impact on the Group's financial position and performance.

- 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 are not expected to have a material impact on the Group 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 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 consolidated 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 Group. They include:

- PFRS 5, *Non-current 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 - regional market 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 Group's financial assets and impairment methodology for financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

*Deferred Effectivity*

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

- IFRS 16, *Leases*
  On January 13, 2016, the IASB issued its new standard, IFRS 16, *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, Revenue from Contracts with Customers. 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 Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from date of placement and that are subject to an insignificant risk of changes in value.

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 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 consolidated financial statements are categorized within the fair value hierarchy (see Note 24).

For assets and liabilities that are recognized in the 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 consolidated 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 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 at December 31, 2015 and 2014, the Group's financial instruments are of the nature of loans and receivables, financial assets at FVPL, AFS financial assets 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. Accounts 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.

*Financial assets at FVPL*

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Derivatives embedded in the host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

Financial assets at FVPL are recorded in the consolidated statements of financial position at fair value, with changes in the fair value recorded in the consolidated statement of comprehensive income, included under “Other income” account.

As at December 31, 2015 and 2014, the Group holds its investment in Unit Investment Trust Fund (UITF) Security Bank (SB) Peso money market fund as held for trading and classified these as financial assets at FVPL (see Note 6).

*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 cash equivalents” and “Accounts receivables” accounts in the 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 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.

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

*AFS financial assets*
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM financial assets, or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include convertible notes and equity investments.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in 'Net unrealized gain (loss) on available-for-sale financial assets' in the statement of comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other comprehensive income, or determined to be impaired, at which time the cumulative loss is recognised in the profit or loss and removed from unrealized gain or loss on AFS financial assets. AFS financial assets which are not quoted are subsequently carried at cost less allowance for impairment losses.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the forseeable future, the Group may reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the ability and intent to hold these assets for the forseeable future or until maturity. Reclassification to HTM financial assets category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

When the security is disposed of, the cumulative gain or loss previously recognized in changes in equity is recognized as 'Other income' in the profit or loss. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the profit or loss when the right to receive payment has been established. The losses arising from impairment of such financial assets are recognized as 'Provision for impairment losses' in the profit or loss.

The Group's AFS financial assets pertain to convertible notess and quoted and unquoted equity securities. AFS financial assets are included in current assets if expected to be realized 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 "Taxes payable", "Deferred output VAT" and statutory payables included as "Others") "Liability for written put option" 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 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.

*AFS financial assets*
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from other comprehensive income and recognized in the profit or loss as “Miscellaneous” under “General and administrative expenses” account. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the loss.

<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 profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Group'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.

Investments in Associates

The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

An investment is accounted for using the equity method from the day it becomes an associate. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the associate.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associate, less any impairment in values. The consolidated statement of comprehensive income reflects the share of the results of the operations of the associate company. The Group's share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the associate company are eliminated to the extent of the interest in the associate company and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investment in associate company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associate company. When the associate company subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associate company and the Group are identical and the associate company's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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 |
|---|---|
| Transportation equipment | 3 |
| Office equipment | 3 to 4 |
| Information Technology (IT) equipment | 4 |
| Furniture and fixtures | 3 to 5 |
| Leasehold improvements | 4 years or lease term, whichever is shorter |

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. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. 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.

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 lives of intangible assets follow:

| | Years |
|---|---|
| Customer relationships | Indefinite |
| Leasehold rights | 7 |
| Developed software | 8 |

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 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:

- 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; and
- 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 in cost of goods sold. During the period of development, the asset is tested for impairment annually.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any noncontrolling interests in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Insiruments*: *Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measure based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Noncontrolling interests
In a business combination, as of the acquisition date, the Group recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. There is a choice of two measurement methods for those components of noncontrolling interests that are both present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of a liquidation. They can be measured at:

a. acquisition-date fair value (consistent with the measurement principle for other components of the business combination); or
b. at their proportionate share of the value of net identifiable assets acquired.

*Written put option over NCI*
Any put options granted to noncontrolling interests give rise to a financial liability measured at fair value, which will be the present value of the redemption amount. The Group's accounting policy on financial instruments applies for the subsequent measurement of the financial liability.

The Group assesses whether the terms and conditions of the option give the acquirer present access to the ownership interest in the share subject to the put option. Factors that indicate that the NCI put provides a present ownership interest include:

a. pricing - to the extent that the price is fixed or determinable, rather than being at fair value;
b. voting rights and decision-making – to the extent that the voting rights or decision-making connected to the shares concerned are restricted;
c. dividend rights – to the extent that the dividend rights attached to the shares concerned are restricted; and
d. issue of call options – a combination of put and call options, with the same period of exercise and same/similar pricing indicates that the arrangement is in the nature of a forward contract.

If it is concluded that the acquirer has a present ownership interest in the shares concerned, the put option is accounted for as an acquisition of the underlying shares, and no noncontrolling interest is recognized.

When the terms of the transaction do not provide a present ownership interest, the noncontrolling interests continues to be recognized within equity until the NCI put is exercised. The carrying amount of noncontrolling interest changes due to allocations of profit or loss, changes in other comprehensive income and dividends declared for the reporting period. The financial liability for the put option is recognized through a debit made to another component of equity attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and recognizes an offsetting credit in the same component of equity reduced on initial recognition.

If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

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 of disposal 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.

*Investments in associates*
The Group also determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate company and recognizes the difference in profit or loss.

In assessing impairment indicators, the Group considers, as a minimum, the following indicators: (a) dividends exceeding the total comprehensive income of the associate in the period the dividend is declared; or (b) the carrying amount of the investment in the separate financial statements exceeding the carrying amount of the associate's net assets, including goodwill.

*Intangible assets with indefinite useful life*
Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level and when circumstances indicate that the carrying value may be impaired.

*Impairment of goodwill*
For assessing impairment of goodwill, a test of impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGUs is less that its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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.

The Group incurred various costs in issuing its own equity instruments. Those costs includes registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense.

*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 represents a portion of equity against which the recognized liability for a written put option was charged.

*Stock dividends*

A stock dividend is considered to be small if the new shares being issued are less than 20-25% of the total number of shares outstanding prior to the stock dividend. On the declaration date of a small stock dividend, the dividend recorded is equal to market value of the shares being issued.

A stock dividend is considered to be large if the new shares being issued are more than 20-25% of the total value of shares outstanding prior to the stock dividend. On the declaration date of a large stock dividend, the dividend recorded is equal to the par value of the shares being issued.

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 is recognized when the service has been rendered in accordance with the terms of the contract.

*Sale of goods*
Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of discounts and applicable taxes. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably.

*Interest income*
Interest income is recognized as it accrues.

*Other income*
Other income is recognized as they accrue.

<u>Cost and Expenses</u>
"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 sales have been recognized.

*Cost of goods sold*
Costs are recognized upon receipt of goods, utilization of services or at the date they are incurred.

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

*Earn-out payment*
Earn-out payments pertaining to payments to former owners of the acquired subsidiary are considered remuneration for their continuing employment and are presented in the consolidated statements of comprehensive income in "General and administrative expenses".

<u>Operating Leases</u>
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;
- 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;
- 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 not reverse in the foreseeable future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

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. 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 year 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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

<u>Value-Added Tax (VAT)</u>
Revenue, expenses and assets are recognized net of the amount of sales tax 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 consolidated statement of financial position.

<u>Pension Liability</u>
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.

Foreign Currency Transactions
The Group’s consolidated financial statements are presented Philippine Peso, which is also the Parent Company and the subsidiaries’ functional currency. The Philippine peso is the currency of the primary economic environment in which the Parent Company 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 year attributable to common stockholders of the parent 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 parent by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of 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 25 of the 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 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 consolidated financial statements but are disclosed in the notes when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events up to date when the 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 consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments and estimates used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the 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 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.

Judgments
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. *Investment in subsidiaries*
   The Group determined that it has control over its subsidiaries by considering, among others, its power over 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 following were also considered:

   - The contractual arrangement with the other vote holders of the investee
   - Rights arising from other contractual agreements
   - The Group's voting rights and potential voting rights

b. *Existence of significant influence over an associate*
The Group determined that it exercises significant influence over its associates (see Note 8) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

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.

d. *Identifiable intangible assets acquired through business combination*
The Group determined that there are identifiable intangible assets to be recognized as result of business combination by considering, among others, the separability or contractual-legal criterion.

The following are the intangible assets acquired through business combinations:

i. *Customer Relationship* - pertains to Yondu's noncontractual and contractual agreements with Globe Telecom Inc. (GTI), its major customer which are expected to generate revenues for the Group in subsequent periods
ii. *Developed Software* - pertains to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment
iii. *Leasehold rights* - pertains to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination

e. *Present ownership over underlying shares in written put option*
The Group determined that it does not have present ownership over the underlying shares in written put option by considering, among others, the voting rights, decision making rights and dividend rights attached to the shares.

f. *Indefinite useful life of customer relationships*
The Group has determined that the recognized customer relationships has an indefinite useful life based on the current relationship with the Company and expected future cash-inflows from contracts with GTI.

Management's Use of Estimates
The key assumptions concerning future and other key sources of estimation at the reporting 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 accounts receivable 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 year. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying values of the Group's accounts receivable amounted to ₱756.41 million and ₱138.69 million as at December 31, 2015 and 2014, respectively (see Note 5).

*Estimating useful lives of property and equipment and intangible assets*
The Group estimates the useful lives of these 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 depreciation and amortization expense and decrease noncurrent assets.

The net book value of property and equipment as of December 31, 2015 and 2014 amounted to ₱58.18 million and ₱8.92 million, respectively (see Note 9). The net book value of intangible assets as of December 31, 2015 and 2014 amounted to ₱1,888.28 million and nil, respectively (see Note 10).

*Evaluating impairment of nonfinancial assets*
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value lest cost of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinites useful lives recognized by the Group.

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.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level and when circumstances indicate that the carrying value may be impaired.

The carrying values of these nonfinancial assets follow:

| | **2015** | 2014 |
|---|---|---|
| Other current assets | **₱44,298,472** | ₱5,311,291 |
| Investments in associates (Note 8) | **102,809,116** | 33,220,576 |
| Property and equipment (Note 9) | **58,183,944** | 8,918,583 |
| Intangible assets (Notes 10 and 20) | **1,888,282,481** | – |
| Other noncurrent assets | **30,049,094** | 1,179,491 |
| | **₱2,123,623,107** | ₱48,629,941 |

*Recognizing deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized.

The Group's deferred tax assets amounted to ₱42.52 million and ₱4.97 million as at December 31, 2015 and 2014, respectively (see Note 18).

*Fair value of financial instruments*
PFRS requires certain financial assets and liabilities to be carried at fair value or have the fair values disclosed in the notes, which requires use of extensive accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the consolidated statement of comprehensive income and consolidated statement of changes in equity. Certain financial assets and liabilities of the Group were initially recorded at its fair value by using the discounted cash flow methodology. See Note 24 for the related balances.

*Fair value measurement of intangible assets resulting from business combination*
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Valuation techniques are used to determine the fair value of the intangible assets. Valuation techniques include multi-period excess earnings method (MEEM), and the "premium profits" method. The table below summarizes the carrying amounts of the intangible assets and the related valuation techniques used to determine fair value at the acquisition date for business combinations during the year.

| **2015** | **Intangible Asset** | **Valuation Technique** | **Carrying Value** |
|---|---|---|---|
| Yondu | Customer relationships | MEEM | ₱1,077,809,700 |
| | Developed software | MEEM | 90,912,963 |
| | Leasehold rights | Premium profits method | 11,646,290 |
| Storm | Leasehold rights | Premium profits method | 3,608,475 |
| Seer | Leasehold rights | Premium profits method | 978,905 |
| | | | ₱1,184,956,333 |

The fair values of the intangible assets identified are sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for determining terminal values. The growth rate is most relevant to the customer relationship intangible asset which is determined to have an indefinite useful life.

Discount rates used are risk-adjusted asset-specific discount rates considering information such as the reliance of the administration of the asset on the ongoing operation of the acquiree, the relative risk of the asset in relation to the acquiree's other assets and the relative risk of the asset in relation to the acquiree's overall risk.

Below are the significant inputs used in the estimation of the fair value that are not observable in the market:

- Assumed discount rate for and customer relationships and developed software ranging from 14.46% to 16.46%
- Assumed discount rate for leasehold rights range from 5.60% to 14.67%
- Terminal value, calculated based on long-term sustainable growth rates for the industry at 3%

Expected future cash inflows used for the determination of fair value do not consider the effects of any significant future investments or modification in the state of the developed software as of acquisition date which may enhance the asset's performance.

It is possible that future results of operations could be materially affected by changes in estimates or in the effectiveness of the Group's strategies in utilizing such intangible assets.

## 4. Cash and Cash Equivalents

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Cash on hand and in banks | **₱305,885,002** | ₱457,917,228 |
| Cash equivalents | – | 500,000,000 |
| | **₱305,885,002** | ₱957,917,228 |

Cash in banks earn interest at the prevailing bank deposit rates.

Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱9.43 million and ₱1.19 million for the years ended December 31, 2015 and 2014, respectively.

## 5. Accounts Receivables

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Trade receivables | **₱717,171,131** | ₱137,108,320 |
| Advances to employees | **3,686,835** | 665,563 |
| Receivable from related parties (Note 17) | **697,318** | 381,188 |
| Interest receivable | – | 504,110 |
| Others | **38,339,002** | 26,889 |
| | **759,894,286** | 138,686,070 |
| Less: Allowance for impairment loss | **3,487,562** | – |
| | **₱756,406,724** | ₱138,686,070 |

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI) and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of December 31, 2015 and 2014, the Group's receivables from GTI amounted to ₱414.61 million and ₱127.41 million, respectively, which comprise 58% and 95%, respectively, of the total trade receivables (see Note 24).

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

Receivable from related parties are noninterest-bearing and are due and demandable.

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

## 6. Financial Assets at Fair Value through Profit or Loss

The Group invested in the SB Peso Money Market Fund (the Fund) on December 9, 2014. The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. In 2015, the Group redeemed its investment and transferred the cash received to its regular checking account in SB for working capital purposes. This resulted to a realized gain recognized under "Other income" amounting to ₱5.48 million. The fair value of the Group's total investment in the Fund amounted to ₱80.32 million and ₱500.43 million as of December 31, 2015 and 2014, respectively.

The fair value of the investment in UITF is valued at ₱107.02 and ₱124.10 NAV per unit as at December 31, 2015 and 2014, respectively, and is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available such as quoted market prices or dealer quotes for similar instruments. Thus, the fair value measurement is categorized under Level 2 of fair value hierarchy (Note 24).

For the year ended December 31, 2015 and 2014, the Group recognized unrealized gain from financial assets at FVPL under "Other income" amounting to ₱0.32 million and ₱0.43 million, respectively.

7. **Available-for-Sale Financial Assets**

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Unquoted equity investments | **₱44,244,956** | ₱– |
| Quoted equity investments | **240,000** | 225,000 |
| Unquoted debt investments | **41,132,123** | 3,602,123 |
| | **85,617,079** | 3,827,123 |
| Less: current portion | **17,657,123** | – |
| | **₱67,959,956** | ₱3,827,123 |

The rollforward analysis of net unrealized loss on AFS financial assets follow:

| | 2015 | 2014 |
|---|---|---|
| Balance at beginning of year | **(₱225,000)** | (₱230,000) |
| Unrealized gain on AFS financial asset | **15,000** | 5,000 |
| Balance at end of year | **(₱210,000)** | (₱225,000) |

*Unquoted equity investments*
In April 2015, the Group acquired 666,666 million shares of Series A Preferred Stock of Quick.ly, Inc. ("Quick.ly") at a purchase price of $1.50 per share for a total investment of US$999,999 or ₱44.24 million. As at December 31, 2015, the Group holds a 4.22% ownership of Quick.ly on a fully-diluted basis.

Fair value of unquoted equity investments was determined using prices from recent sales at arm's length transaction. No unrealized gain or loss was recognized during the year for these investments (Note 24).

*Quoted equity investments*
Quoted equity instruments consist of investment in golf club shares.

*Unquoted debt investments*
Einsights Pte, Ltd.
On September 30, 2015, the Group purchased a convertible promissory note for US$500,000 issued by Einsights Pte, Ltd. ("Einsights"), a Singapore-based technology solutions provider with operations in Singapore, Vietnam, Hong Kong, India, Australia, Canada and Switzerland. The convertible promissory note will mature after 18 months from closing date with applicable interest rate at 3% per annum.

MatchMe Pte. Ltd.
On November 2, 2015, the Group acquired a convertible promissory note for US$300,000 issued by MatchMe Pte. Ltd. ("MatchMe"), an associate of the Group based in Singapore (Note 8). The principal and interest will be due and payable six (6) months from the date of the note. Interest will accrue at 5% per annum.

Pico Candy Pte. Ltd.
In August 2013, the Group invested in Pico Candy Pte. Ltd.'s convertible bonds amounting to SG $0.10 million, which is equivalent to ₱3.60 million. PicoCandy Pte. Ltd. operates a digital sticker distribution platform. It was founded in 2013 and is based in Singapore.

Carrying amount of the investments in unquoted debt investments as of December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Einsights Pte, Ltd | **₱23,475,000** | ₱– |
| MatchMe Pte. Ltd | **14,055,000** | – |
| Pico Candy Pte. Ltd | **3,602,123** | 3,602,123 |
| | **₱41,132,123** | ₱3,602,123 |

The quoted shares are categorized under the Level 1 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 2 (Note 24).

## 8. Investments in Associates

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Balance at beginning of year | **₱33,220,576** | ₱– |
| Additions during the year | **72,583,350** | 33,220,576 |
| Cumulative translation adjustment | **6,484,416** | – |
| Equity in net loss during the year | **(9,479,226)** | – |
| Balance at end of year | **₱102,809,116** | ₱33,220,576 |

The Group's equity in the net assets of associates and the related percentages of ownership are shown below:

| | Percentages of Ownership | | Carrying Amounts | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Altitude Games Pte. Ltd. | **21.78%** | 21.78% | **₱31,403,073** | ₱33,220,576 |
| Altitude Games Inc. | **21.17** | – | **108,776** | – |
| MatchMe Ltd. | **31.52** | – | **60,468,564** | – |
| PT Sembilan Digital Investama | **49.00** | – | **10,828,703** | – |
| | | | **₱102,809,116** | ₱33,220,576 |

*Altitude Games Pte. Ltd.*
On December 11, 2014, the Parent Company acquired 11.76% stake for 13.33 million ordinary shares in Altitude Games Pte. Ltd. ("Altitude Games"), a Singaporean IT company engaged in computer game development and publishing. The Parent Company paid ₱17.98 million as consideration for the said investment.

On the same date, Mr. Nico Jose S. Nolledo, a stockholder, assigned its 11.36 million ordinary shares representing 10.02% ownership in Altitude Games pursuant to the Deed of Assignment with the Parent Company. Accordingly, the Parent Company recognized a payable to a stockholder amounting to ₱15.24 million from the said assignment which was subsequently paid in 2015 (see Note 17).

As at the December 31, 2015 and 2014, the Parent Company owns 21.78% ownership in Altitude Games resulting from the said acquisitions. The Parent Company acquired a total of 24.69 million shares with par value of US$0.01 per share for a total consideration of US$740,800 or US$0.03 per share.

*Altitude Games Inc.*
On July 22, 2015, the Parent Company subscribed to 211,656 shares of stock or 21.17% shareholdings in Altitude Games Inc. ("Altitude Philippines"), an affiliate of Altitude Singapore. Altitude Philippines engages in the business of development, design, sale and distribution of games and applications.

*MatchMe Pte. Ltd.*
On March 30, 2015, the Parent Company acquired 1,000,000 ordinary shares of MatchMe Pte. Ltd. ("MatchMe"), an international game development company based in Singapore, for a total consideration amounting to ₱60.47 million.

*PT Sembilan Digital Investama*
On March 26, 2015, the Parent Company acquired 147 shares representing 49% shareholdings in PT Sembilan Digital Investama (SDI) amounting to ₱10.83 million. The acquisition gave the Parent Company access to PT Ninelives Interactive ("Ninelives"), a mobile content and distribution company in Indonesia, which SDI owns.

Following are the significant financial information of the significant associates as of December 31, 2015:

*Altitude Games Pte. Ltd.*

| | **2015** |
|---|---|
| Total assets | ₱4,379,735 |
| Total liabilities | – |
| Total equity | 4,379,735 |
| Proportion of the Group's ownership | 21.78% |
| Share in net assets of the associate | 953,906 |
| Cumulative translation adjustment | 1,646,528 |
| Goodwill | 28,802,639 |
| Carrying amount of the investment | ₱31,403,073 |
| | |
| Total revenue | ₱12,790,648 |
| Total expenses | 31,647,558 |
| Net loss | (18,856,910) |
| Less: Intercompany gross profit | 3,451,698 |
| Loss for equity pick-up | 15,405,212 |
| Group's share of loss for the year | ₱3,355,255 |

*The conversion rate used was closing rate and weighted average rate of ₱47.06 to USD1 and ₱47.12, respectively as of December 31, 2015*

*MatchMe Pte. Ltd.*

| | 2015 |
|---|---|
| Total assets | ₱67,007,341 |
| Total liabilities | 17,526,541 |
| Total equity | 49,480,800 |
| Proportion of the Group's ownership | 31.52% |
| Share in the net assets of the associate | 15,596,348 |
| Cumulative translation adjustment | 4,290,674 |
| Goodwill | 40,581,542 |
| Carrying amount of the investment | ₱60,468,564 |
| | |
| Total revenue | ₱– |
| Total expenses | 17,202,125 |
| Net loss | (17,202,125) |
| Group's share of loss for the year | ₱5,422,110 |

*The conversion rate used was closing rate and weighted average rate of ₱47.06 to USD1 and ₱47.12, respectively as of December 31, 2015*

*PT Sembilan Digital Investama*

| | 2015 |
|---|---|
| Total assets | ₱6,495,850 |
| Total liabilities | 7,177,185 |
| Total equity | (681,335) |
| Proportion of the Group's ownership | 49.00% |
| Share in the net assets of the associate | (338,854) |
| Cumulative translation adjustment | 547,214 |
| Goodwill | 10,620,343 |
| Carrying amount of the investment | ₱10,828,703 |
| | |
| Total revenue | ₱20,350,639 |
| Total expenses | 21,783,008 |
| Net loss | (1,432,369) |
| Group's share of loss for the year | ₱701,861 |

*The conversion rate used was closing rate and weighted average rate of ₱47.06 to USD1 and ₱47.12, respectively as of December 31, 2015*

9. **Property and Equipment**

Rollforward of this account follows:

**December 31, 2015**

| | Transportation Equipment | Office Equipment | IT Equipment | Furniture and Fixtures | Leasehold Improvements | Leased Asset | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At beginning of year | **₱3,619,435** | **₱3,989,262** | **₱2,750,029** | **₱1,537,865** | **₱4,356,039** | **₱–** | **₱16,252,630** |
| Additions through business combination (Note 20) | **77,009** | **528,459** | **16,054,693** | **994,995** | **23,941,308** | **2,859,870** | **44,456,334** |
| Additions | **–** | **1,628,752** | **6,510,198** | **1,736,170** | **3,430,022** | **–** | **13,305,142** |
| At end of year | **3,696,444** | **6,146,473** | **25,314,920** | **4,269,030** | **31,727,369** | **2,859,870** | **74,014,106** |
| **Accumulated Depreciation and Amortization** | | | | | | | |
| At beginning of year | **2,475,271** | **2,368,596** | **1,295,767** | **876,261** | **318,152** | **–** | **7,334,047** |
| Depreciation and amortization (Notes 14 and 15) | **807,645** | **3,231,634** | **722,634** | **1,205,922** | **1,797,916** | **730,364** | **8,496,115** |
| At end of year | **3,282,916** | **5,600,230** | **2,018,401** | **2,082,183** | **2,116,068** | **730,364** | **15,830,162** |
| **Net Book Value** | **₱413,528** | **₱546,243** | **₱23,296,519** | **₱2,186,847** | **₱29,611,301** | **₱2,129,506** | **₱58,183,944** |

December 31, 2014

| | Transportation Equipment | Office Equipment | IT Equipment | Furniture and Fixtures | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At beginning of year | ₱3,619,435 | ₱3,358,458 | ₱1,564,601 | ₱1,339,539 | ₱397,641 | ₱10,279,674 |
| Additions | – | 1,418,499 | 1,185,428 | 487,900 | 4,356,039 | 7,447,866 |
| Disposals and retirement | – | (787,695) | – | (289,574) | (397,641) | (1,474,910) |
| At end of year | 3,619,435 | 3,989,262 | 2,750,029 | 1,537,865 | 4,356,039 | 16,252,630 |
| Accumulated Depreciation and Amortization | | | | | | |
| At beginning of year | 1,268,793 | 2,594,338 | 930,017 | 944,339 | 281,188 | 6,018,675 |
| Depreciation and amortization (Notes 14 and 15) | 1,206,478 | 561,920 | 365,750 | 221,470 | 434,605 | 2,790,223 |
| Disposals and retirement | – | (787,662) | – | (289,548) | (397,641) | (1,474,851) |
| At end of year | 2,475,271 | 2,368,596 | 1,295,767 | 876,261 | 318,152 | 7,334,047 |
| Net Book Value | ₱1,144,164 | ₱1,620,666 | ₱1,454,262 | ₱661,604 | ₱4,037,887 | ₱8,918,583 |

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

| | 2015 | 2014 |
|---|---|---|
| Cost of services (Note 14) | **₱1,575,039** | ₱431,572 |
| General and administrative expenses (Note 15) | **6,921,076** | 2,358,651 |
| | **₱8,496,115** | ₱2,790,223 |

The Group retired fully depreciated property and equipment amounting to nil and ₱1.39 million as at December 31, 2015 and 2014, respectively.

The Group's fully depreciated property and equipment with aggregate cost of ₱21.01 million and ₱3.14 million are still in use as at December 31, 2015 and 2014, respectively.

In 2014, the Group disposed of its office equipment and furniture and fixtures costing ₱0.05 million for a gain of ₱0.06 million recognized under "Other income" account in the consolidated statements of comprehensive income.

## 10. Intangible Assets

This account consists of:

| | Goodwill | Customer Relationship | Developed Software | Leasehold Rights | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Additions during the year | **₱–** | **₱–** | **₱13,534,939** | **₱–** | **₱13,534,939** |
| Additions through business combination (Note 20) | **687,808,790** | **1,077,809,700** | **97,588,544** | **17,378,812** | **1,880,585,846** |
| At end of year | **687,808,790** | **1,077,809,700** | **111,123,483** | **17,378,812** | **1,894,120,785** |
| **Accumulated amortization** | | | | | |
| Amortization (Note 14) | **–** | **–** | **4,693,062** | **1,145,242** | **5,838,304** |
| **Net Book Value** | **₱687,808,790** | **₱1,077,809,700** | **₱106,430,421** | **₱16,233,570** | **₱1,888,282,481** |

*Goodwill*
Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

*Impairment testing of goodwill*
Goodwill acquired though business combinations pertain to the subsidiaries acquired during the year.

Allocation of goodwill to the CGUs is as follows:

| | Goodwill |
|---|---|
| Yondu, Inc. mobile consumer services (Yondu VAS) | ₱334,937,958 |
| Yondu, Inc. knowledge process outsourcing (Yondu BPO) | 205,209,959 |
| Storm Flex Systems, Inc. (Storm) | 134,161,688 |
| Seer Technologies, Inc. (Seer) | 13,499,185 |
| | ₱687,808,790 |

The recoverable amounts have been based on value in use calculations using cash flow projections from forecasts provided by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 3%.

Pre-tax discount rates used for the Yondu VAS, Yondu BPO, Storm and Seer are 13.52%, 13.52%, 14.67% and 9.41%, respectively.

No impairment loss was recognized for the goodwill recognized from the business combinations.

*Customer Relationship*
Customer relationship pertains to Yondu's noncontractual and contractual agreements with GTI, its major customer which are expected to generate revenues for the Group in subsequent periods.

*Impairment testing of customer relationships*
The recoverable amount of customer relationships was determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period. The pre-tax discount rate applied to the cash-flow projections is 14.46%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%. The growth rate is based on the long-term sustainable growth rates for the industry.

<u>*Key Assumptions Used in Value in Use Calculations*</u>
The calculation of value in use for both goodwill and customer relationships is most sensitive to the following assumptions:

- *Revenues*
  Revenues are based on budgeted amounts for the succeeding periods with increases in the budget period based on anticipated changes in volume of revenues.
- *Discount rate*
  Discount rates used are risk-adjusted asset-specific discount rates for the intangible assets which considers information such as the reliance of the administration of the asset on the ongoing operation of the acquiree, the relative risk of the asset in relation to the acquiree's other assets and the relative risk of the asset in relation to the acquiree's overall risk. Recoverable amounts of the CGUs are calculated using pre-tax discount rates specific to the CGUs. The discount rates are derived from the weighted average cost of capital (WACC).
- *Growth rate*
  The growth rate is based on the long-term sustainable growth rates for the industry.

*Developed Software*
Developed software pertain to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment.

*Leasehold rights*
Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination.

## 11. Accounts and Other Payables

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Dividends payable | **₱253,485,070** | ₱– |
| Trade payables | **123,967,093** | 9,258,583 |
| Deferred output VAT | **74,513,636** | 10,056,886 |
| Accrued expenses | **32,600,870** | 5,407,804 |
| Taxes payable | **32,332,480** | 66,049,397 |
| Payable to related parties (Notes 8 and 17) | **2,810,181** | 15,240,576 |
| Others | **3,034,989** | 420,876 |
| | **₱522,744,319** | ₱106,434,122 |

Dividends payable pertain to amount payable to GTI for dividends declared before the Parent Company acquired shares in Yondu.

Trade payables represent the unpaid subcontracted services and other cost of services to third parties. These are noninterest-bearing and are normally settled within one year.

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 and applied against input VAT upon receipt of payment.

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.

Taxes payable include output VAT after application of available input VAT and expanded withholding tax on payment to suppliers and employees' compensation which are settled within one year. In 2014, taxes payable include percentage tax imposed on proceeds from initial public offering (IPO) amounting to ₱54.63 million.
Others consist of statutory payables to SSS, Philhealth and HDMF. These are noninterest-bearing and are normally settled within one year.

## 12. Loans Payable

This account pertains to short-term, secured and interest-bearing 60-day term loans entered into by the Group with a local bank collaterized by trade receivables equivalent to the outstanding balances of the loans as at December 31, 2015 with interest rate of 6.75% per annum.

Interest expense recognized in the Group's statement of comprehensive income amounted to ₱0.75 million in 2015.

## 13. Service Income

Service income, amounting to ₱824.02 million, ₱378.32 million and ₱251.81 million for the years ended December 31, 2015, 2014 and 2013, respectively, pertain to revenues earned from mobile consumer products and services, mobile enterprise services and knowledge process outsourcing rendered by the Group to its major customer, GTI and other telecommunication companies. For the years ended December 31, 2015, 2014 and 2013, the Group's revenue from GTI amounted to ₱611.89 million, ₱362.65 million and ₱238.86 million, respectively, which comprise approximately 98%, 96% and 95%, respectively, of the total service income of the Group.

## 14. Cost of Services

Cost of services consists of the following:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Salaries, wages and employee benefits | **₱164,987,938** | ₱42,248,106 | ₱33,712,834 |
| Segment fee and network costs | **55,099,561** | 16,586,174 | 10,265,979 |
| Outsourced services (Note 17) | **36,539,184** | 36,191,763 | 27,239,342 |
| Royalty fees | **14,034,071** | – | – |
| Web hosting | **12,045,737** | 6,677,454 | 7,702,567 |
| Depreciation and amortization (Notes 9 and 10) | **7,413,343** | 431,572 | 292,977 |
| Rent (Note 16) | **6,257,375** | 3,517,592 | 1,859,345 |
| Consultancy fees | **3,367,551** | 955,727 | 3,407,184 |
| Utilities | **2,813,955** | 2,442,152 | 448,986 |
| Transportation and travel | **2,210,915** | 214,442 | 332,689 |
| Prizes and winnings | **1,600,216** | 1,992,172 | 1,218,397 |
| Commission | **1,250,000** | 666,667 | 1,055,556 |
| Seminar and trainings | **615,304** | 1,602,752 | 500,000 |
| Others | **6,459,376** | 338,018 | 1,048,504 |
| | **₱314,694,526** | ₱113,864,591 | ₱89,084,360 |

## 15. General and Administrative Expenses

This account consists of:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Salaries, wages and employee benefits | **₱66,933,067** | ₱11,057,166 | ₱4,456,481 |
| Professional fees | **19,253,060** | 7,690,432 | 2,112,290 |
| Marketing and promotions | **13,527,021** | 1,349,675 | 711,415 |
| Rent (Note 16) | **10,739,128** | 549,519 | 326,785 |
| Advertising | **10,331,194** | 1,792,787 | 78,600 |
| Entertainment, amusement and recreation | **9,534,714** | 2,433,532 | 2,284,633 |
| Repairs and maintenance | **9,201,573** | 559,936 | 471,035 |

(Forward)

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Utilities | **₱7,107,956** | ₱1,324,074 | ₱1,143,338 |
| Transportation and travel | **7,082,467** | 2,755,095 | 3,553,198 |
| Depreciation and amortization (Note 9) | **6,921,076** | 2,358,651 | 1,897,545 |
| Outsourced services | **6,196,641** | 584,071 | – |
| Interest expense | **5,612,191** | – | – |
| Supplies | **5,100,951** | 2,637,523 | 3,581,395 |
| Provision for impairment losses (Note 5) | **3,487,562** | 1,828 | 317,424 |
| Taxes and licenses | **2,838,301** | 1,559,311 | 385,854 |
| Seminars and trainings | **2,711,026** | 395,011 | 9,000 |
| Dues and subscription | **2,589,970** | 615,872 | 509,672 |
| Insurance | **962,358** | 115,867 | 602,340 |
| Directors' fees | **617,500** | – | – |
| Miscellaneous | **5,384,603** | 1,433,290 | 864,776 |
| | **₱196,132,359** | ₱39,213,640 | ₱23,305,781 |

## 16. **Operating Lease Commitments**

The Group entered into various lease agreements with third parties 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. In 2012, the Parent Company executed a noncancellable lease contract with Trends and Technologies Holdings, Inc. for a period of two (2) years commencing on May 1, 2012 and expiring on April 30, 2014. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.10 million and a corresponding increase of 5% on the second year of the lease. The Parent Company renewed this contract for a period of four (4) months commencing on May 1, 2014 and expiring on August 31, 2014. The lease ended on August 31, 2014.

b. The Parent Company entered into a noncancellable lease contract with Gervel, Inc. for office space for a period of three (3) years commencing on April 1, 2014 and expiring on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.20 million and a corresponding increase of 5% on the third year of the lease.

c. Fluxion entered into a lease agreement with Asian Diamond Plans, Inc. (AADI) for a period of three (3) years commencing on April 30, 2011. The applicable rental rate per month is ₱0.07 million. In 2012, Fluxion entered into another agreement with AADI for the adjacent unit for a period of one (1) year commencing on September 17, 2012 with an applicable rate of ₱0.02 million per month. On April 21, 2014, Fluxion extended its rent and parking lease agreement with AADI from May 1 to 15, 2014. The lease ended on May 15, 2014.

d. Fluxion entered into a noncancellable lease agreement with TKS Holdings, Inc. for a period of one (1) 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 (2) 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.

e. In 2014, Storm entered into a noncancellable lease contract with ECA Next Properties, Inc. for a period of one (1) year, which commenced on May 1, 2014 and expired on April 30, 2015. This contract was renewed for another period of two (2) years commencing on May 1, 2015 and expiring April 30, 2017. The monthly rental for the first year period amounts to ₱0.07 million and shall be increased by five percent (5%) for the second year.

f. In 2014, Storm entered into a noncancellable lease contract with CYG Trinkets Shop for a period of two (2) years commencing March 1, 2014 and will expire on February 29, 2016. The contract may be renewed in writing under the same terms and conditions upon mutual agreement between the parties. The applicable monthly rent amounts to ₱0.04 million.

g. In 2014, Storm entered into a noncancellable lease contract with Kepwealth Property Phils., Inc. for the Company's office situated in Cebu City for a period of two (2) years commencing on December 1, 2014 and expiring on November 30, 2016. The lease contract may be renewed by mutual agreement of the parties. The applicable lease rental on the first year amounted to ₱0.03 million per month and shall be increased by ten percent (10%) annually.

h. In 2015, Storm entered into a cancellable lease contract with All Estate Realty Brokerage Inc. for a period of two (2) years commencing on April 15, 2015. The lease contract may be renewed upon mutual agreement between the parties. Monthly rent applicable on the first year amounted to ₱0.05 million per month with 10 percent (10%) annual escalation rate.

i. In 2013, Seer executed a lease contract with Super Prime Holdings Inc. for a lease term of three (3) years beginning November 15, 2013 and terminating on November 14, 2016. The lease contract may be renewed upon mutual agreement between the parties. The applicable lease rate amounted to ₱0.15 million per month on the first year subject to 6% annual escalation rate.

j. In 2014, Codesignate entered into a lease agreement with Jecoprime Development Corporation for a period of two (2) years commencing December 12, 2014. The contract may be renewed for another period of two (2) years upon mutual agreement of the parties subject to an escalation rate base on fair market rents at the time of renewal and a maximum increment of no more than 10% of the then passing lease rental. The applicable base rent amounted to ₱0.07 million per month.

k. In 2015, Yondu entered into a cancellable lease agreement with Septus, Inc. for a period of five months commencing on July 27, 2015. Yondu has extended its lease until first quarter of 2016. The applicable rate is ₱0.49 million.

l. In 2014, Yondu entered into a noncancellable lease contract with Panorama Development Corporation for its new office. The term of the lease is seven (7) years, effective November 1, 2014 and terminating on October 31, 2021. The applicable rate per month for the first year is ₱1.02 million and a corresponding increase of 5% on the second year of lease.

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱17.00 million and ₱4.07 million for the years ended December 31, 2015 and 2014, respectively (see Notes 14 and 15).

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

| | **2015** | 2014 |
|---|---|---|
| Within one year | **₱32,509,538** | ₱3,096,600 |
| After one year but not more than 5years | **115,858,679** | 3,042,000 |
| More than 5 years | **20,763,649** | – |
| | **₱169,131,866** | ₱6,138,600 |

## 17. 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 payables to a related party as at December 31, 2015 and 2014 follow:

| | | | | | **Outstanding Balance** | | | |
|---|---|---|---|---|---|---|---|---|
| | | | **Amount/Volume** | | **2015** | | 2014 | |
| | **Terms** | **Conditions** | **2015** | 2014 | **Receivable** | **Payable** | Receivable | Payable |
| **Affiliates** | | | | | | | | |
| Cost of services | Noninterest-bearing | Unsecured, no impairment | **₱9,622,782** | ₱27,732,429 | **₱–** | **₱1,809,459** | ₱– | ₱– |
| Development cost | Noninterest-bearing | Unsecured, no impairment | **4,673,000** | – | – | – | – | – |
| Advances | Noninterest-bearing | Unsecured, no impairment | – | – | – | – | 308,831 | – |
| | | | **14,295,782** | 27,732,429 | – | **1,809,459** | 308,831 | – |
| **Stockholders** | | | | | | | | |
| Payable to a stockholder | Noninterest-bearing | Unsecured, no impairment | – | – | – | – | – | 15,240,576 |
| Advances | One year; noninterest -bearing | Unsecured, no impairment | – | 5,771,086 | **697,318** | – | 72,357 | – |
| | | | – | 5,771,086 | **697,318** | – | 72,357 | 15,240,576 |
| | | | **₱14,295,782** | ₱33,503,515 | **₱697,318** | **₱1,809,459** | ₱381,188 | ₱15,240,576 |

Affiliates:

a. In 2014, the Parent Company gained an exclusive right to distribute one of Altitude Games Singapore's game, Run Run Super V. In return, the Parent Company shall pay Altitude Games Singapore a certain percentage of the revenues generated from such applications.

   For the year ended December 31, 2015, the Group recognized "Outsourced Services" under "Cost of Services" amounting to ₱9.62 million in relation to the aforementioned transaction. As at December 31, 2015, payable to Altitude Singapore amounted to ₱1.81 million.

b. In 2015, the Group entered into service agreements with Altitude Philippines, an associate, to develop mobile casual games that were launched. The cost of these services availed amounting to ₱4.67 million were capitalized as "Developed Software" under "Intangible assets".

c. On January 1, 2011, the Parent Company entered into a service agreement with Digital Storm, Inc. (DSI), wherein the latter will render services in favor of the Parent Company. The services include promotion of mobile applications jointly developed with the Parent Company and assistance in the deployment such applications in the Parent Company's programs and events. In return, the Parent Company shall pay DSI a certain percentage of the revenues generated from such applications.

d. Advances to affiliates pertain to advances for the operating expenditures Mobile Acdemy and Starfish Mobile Technologies amounting to nil and ₱0.31 million as at December 31, 2015 and 2014, respectively.

Stockholders:

a. On December 11, 2014, the Parent Company acquired on account 11.36 million ordinary shares from Mr. Nico Jose S. Nolledo, a stockholder, comprising 10.02% ownership in Altitude Games amounting to ₱15.24 million (See Note 8).

b. Transactions with stockholders also pertain to advances for reimbursement of common expenses incurred by the stockholders in behalf of the Group and advances for the acquisition of property and equipment and operating expenditures that were shouldered by the stockholders on the Group's behalf.

*Key management compensation*
Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱45.22 million, ₱12.18 million and ₱10.28 million for the years ended December 31, 2015, 2014 and 2013 respectively.

## 18. Income Taxes

Provision for income tax for the years ended December 31, 2015, 2014 and 2013 consists of the following:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Current | **₱129,405,014** | ₱43,637,674 | ₱27,972,942 |
| Final | **1,894,404** | 219,304 | 34,749 |
| Deferred | **(29,816,879)** | 4,564,113 | (7,829,491) |
| | **₱101,482,539** | ₱48,421,091 | ₱20,178,200 |

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

Net deferred tax assets:

| | **2015** | 2014 |
|---|---|---|
| Deferred tax assets on: | | |
| NOLCO | **₱18,298,512** | ₱– |
| Accrued expenses | **12,777,221** | 687,952 |
| Pension liability | **9,087,313** | 4,408,518 |
| Unrealized foreign currency exchange loss | **1,348,280** | 71 |
| Allowance for doubtful accounts | **1,046,268** | – |
| | **42,557,594** | 5,096,541 |
| Deferred tax liabilities on: | | |
| Unrealized gain from financial assets at FVPL | **(33,958)** | (129,318) |
| Net deferred tax asset | **₱42,523,636** | ₱4,967,223 |

Net deferred tax liabilities:

| | **2015** | 2014 |
|---|---|---|
| Deferred tax assets on: | | |
| Pension liability | **₱3,174,868** | ₱3,286,268 |
| Allowance for doubtful accounts | **597,443** | – |
| Accrued expense | **73,098** | 553,560 |
| | **3,845,409** | 3,839,828 |
| Deferred tax liabilities on: | | |
| Fair value adjustment on intangible assets | **354,081,556** | – |
| Accrued income | **10,347,128** | 13,047,399 |
| Others | **3,793** | 1,402 |
| | **364,432,477** | 13,048,801 |
| Net deferred tax liabilities | **₱360,587,068** | ₱9,208,973 |

The reconciliation between the statutory and effective income tax rates for the years ended December 31, 2015, 2014 and 2013 follows:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Statutory income tax rate | **₱99,330,192** | ₱71,742,162 | ₱41,899,892 |
| Adjustments resulting from: | | | |
| Equity in net loss of associates | **2,843,768** | – | – |
| Nondeductible expenses | **1,155,041** | – | 66,584 |
| Interest income subjected to final tax | **(1,087,235)** | (136,910) | (17,748) |
| Change in unrecognized DTA | **(759,227)** | – | – |
| Income under income tax holiday (ITH) | – | (23,184,161) | (21,770,528) |
| Provision for income tax | **₱101,482,539** | ₱48,421,091 | ₱20,178,200 |

Registration with the Board of Investments (BOI)
On July 27, 2011, the Parent Company registered with the BOI as an expanding IT service firm in the field of software development on a non-pioneer status with Certificate Registration No. 2011-147 which incorporates the agreed terms and conditions of the Parent Company's registration, including all the fiscal and non-fiscal incentives available to the registered project as follows:

a. ITH for the period of three years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

b. Only income generated from the registered activity shall be entitled to ITH incentives. In the computation of ITH, a base figure of ₱81.42 million shall be used, which is equivalent to the enterprise's highest attained sales for three years prior to application for expansion.

The Parent Company availed of its ITH incentive granted by the BOI amounting to nil and ₱23.18 million for the years ended December 31, 2015 and 2014, respectively.

## 19. Pension Liability

The Group except for Yondu 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.

Yondu has a noncontributory, defined benefit pension plan (the Plan) covering all of its regular full-time employees. The benefits are based on years of service and compensation on the last year of employment.

The funds of the Plan are administered by a trustee bank under the supervision of the Board of Trustee (BOT) of the Plan. The BOT is responsible for the investment strategy of the Plan.

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 and employee benefits under "General and administrative expenses") in the statements of comprehensive income are as follows:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Current service cost | **₱5,571,898** | ₱1,077,754 | ₱1,060,077 |
| Net interest cost on benefit obligation | **1,387,566** | 436,483 | 333,415 |
| | **₱6,959,464** | ₱1,514,237 | ₱1,393,492 |

The accrued pension of the Group is as follows:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Present value of benefit obligation | **₱45,913,242** | ₱25,649,287 | ₱6,841,418 |
| Fair value of plan assets | **(5,039,304)** | – | – |
| | **₱40,873,938** | ₱25,649,287 | ₱6,841,418 |

The following table presents the changes in the present value of defined benefit obligation.

Present value of defined benefit obligation

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Balance at beginning of year | **₱25,649,287** | ₱6,841,418 | ₱5,456,870 |
| Effect of business combination | **18,659,475** | – | – |
| Current service cost | **5,571,898** | 1,077,754 | 1,060,077 |
| Interest cost on benefit obligation | **1,458,626** | 436,483 | 333,415 |
| Net actuarial losses(gains) | **(5,426,044)** | 17,293,632 | (8,944) |
| | **₱45,913,242** | ₱25,649,287 | ₱6,841,418 |

Fair value of plan assets as of December 31, 2015

| | |
|---|---|
| Acquired through business combination | ₱5,185,735 |
| Interest income | 71,060 |
| Actual return excluding amount included in net interest cost | (217,491) |
| Balance at end of year | ₱5,039,304 |

The fair value of plan assets by each class as of December 31, 2015 are as follow:

| | |
|---|---|
| Investment in equity securities | |
| Mutual funds | ₱3,592,541 |
| UITF | 1,198,631 |
| Money Market | 248,132 |
| | ₱5,039,304 |

The Group does not currently employ any asset-liability matching.

Actuarial loss (gain) on defined benefit pension plan follow:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Balance at beginning of year | **₱12,099,282** | (₱6,261) | ₱– |
| Acquired through business combination | **3,446,581** | – | – |
| Actuarial loss (gain) on defined benefit obligation | **(5,426,044)** | 17,293,633 | (8,944) |
| Actual return excluding amount included in net interest cost | **217,491** | – | – |
| Tax effect relating to actuarial gain (loss) | **1,562,567** | (5,188,090) | 2,683 |
| | **₱11,899,877** | ₱12,099,282 | (₱6,261) |

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Discount rate | **4.86 – 5.77%** | 4.46% | 6.38% |
| Salary projection rate | **5.00 – 8.00%** | 5.00 – 8.00% | 5.00 – 8.00% |

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

| | | Effect on DBO | |
|---|---|---|---|
| | | **2015** | 2014 |
| Discount rate | (+) 1.0% | **(₱7,120,966)** | (₱5,034,446) |
| | (−) 1.0% | **8,956,235** | 6,422,944 |
| Salary increase rate | (+) 1.0% | **10,366,553** | 5,927,139 |
| | (−) 1.0% | **(8,411,960)** | (4,799,923) |

The weighted average duration of defined benefit obligation at the end of the reporting period is 30.2 years.

The Group has no expected contribution for the retirement fund for next year.

## 20. Business Combination

Storm Flex Systems, Inc. ("Storm")
On February 26, 2015, the Parent Company and Storm signed a deal that will give the Parent Company 37,565 common shares or a 51% stake in Storm and other rights through primary and secondary issuances, for a total consideration of US$4.30 million or ₱190.89 million.

Storm is a human resource consultancy firm which has developed a proprietary platform called the "flex benefits system" that allows employees to convert their employee benefits to other benefits such as gadgets, dining and other merchandise or service.

The acquisition of Storm will enable the Group to expand its distribution network to beyond telecommunication networks. The Group will be able to reach more customers and provide them with physical products and services through Storm's "flex benefits system."

The following are fair values of the identifiable assets and liabilities assumed:

| | |
|---|---|
| **Assets** | |
| Cash | ₱110,123,616 |
| Receivables | 14,389,114 |
| Inventories | 978,648 |
| Other current assets | 5,788,668 |
| Property and equipment | 1,435,871 |
| Intangible assets | 4,096,106 |
| Deferred tax asset | 2,731,642 |
| Other noncurrent asset | 382,769 |
| | 139,926,434 |

(Forward)

| | |
|---|---|
| **Liabilities** | |
| Accounts and other payables | ₱20,965,139 |
| Deferred tax liability | 1,228,832 |
| Loans payable | 6,628,000 |
| | 28,821,971 |
| Net assets | 111,104,463 |
| Noncontrolling interests in Storm | 54,376,599 |
| Total net assets acquired | 56,727,864 |
| Goodwill | 134,161,689 |
| Acquisition cost | ₱190,889,553 |

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The noncontrolling interests have been measured at the proportionate share of the fair value of the net identifiable assets acquired and liabilities assumed.

Cash on acquisition follows:

| | |
|---|---|
| Cash acquired from Storm | ₱110,123,616 |
| Cash paid | 135,366,761 |
| Net cash flow | ₱25,243,145 |

From February 26 to December 31, 2015, the Group’s share in revenue and net loss of Storm amounted to ₱69.18 million and ₱33.48 million, respectively. If the combination had taken place at the beginning of 2015, the Group’s total revenue would have been ₱937.26 million, while the Group’s net loss would have been ₱224.59 million.

Seer Technologies, Inc. (“Seer”) and subsidiary

On June 25, 2015, the Company acquired 70,000 shares representing 70% stake holdings in Seer at a price of ₱18.00 million. Codesignate is a 75% owned subsidiary of Seer.

The Parent Company is also due to pay an earn-out amount corresponding to a fixed percentage of Seer’s net income after tax for the years 2015 to 2017 based on its Audited Financial Statements, as an incentive for Seer's management to continue to improve Seer's financial performance in the immediately succeeding years after the acquisition.

Seer is a company in the mobile platform development space, with a human resource base composed primarily of software engineers. Its acquisition will enhance the ability of the Group to provide mobile solutions such as applications and mobile marketing solutions to its enterprise clients.

The following are the fair values of the identifiable assets and liabilities assumed:

| | |
|---|---|
| **Assets** | |
| Cash | ₱3,706,340 |
| Receivables | 29,735,813 |
| Other current assets | 7,297,243 |
| Property and equipment | 3,381,984 |
| Intangible assets | 1,054,205 |
| Deferred tax asset | 5,562,638 |
| Other noncurrent asset | 2,886,447 |
| | 53,624,670 |
| **Liabilities** | |
| Accounts and other payables | 22,014,409 |
| Loans payable | 13,998,370 |
| Pension liability | 6,959,000 |
| Finance lease liability | 3,906,890 |
| Deferred tax liability | 316,262 |
| | 47,194,931 |
| Net assets | 6,429,739 |
| Noncontrolling interests in Seer | 1,928,922 |
| Total net assets acquired | 4,500,817 |
| Goodwill | 13,499,183 |
| Acquisition cost | ₱18,000,000 |

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The noncontrolling interests have been measured at the proportionate share of the fair value of the net identifiable assets acquired and liabilities assumed.

Cash on acquisition follows:

| | |
|---|---|
| Cash acquired from Seer | ₱3,706,340 |
| Cash paid | 18,000,000 |
| Net cash flow | ₱14,293,660 |

From June 26 to December 31, 2015, the Group's share in revenue and net income of Seer amounted to ₱41.02 million and ₱5.27 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱954.25 million, while the Group's net loss would have been ₱0.22 million.

Yondu Inc. ("Yondu")

On September 16, 2015, the Parent Company acquired 22,950 shares of common stock in Yondu, a content developer and provider of mobile value-added services and information technology services for a total consideration of ₱900.00 million. 5,000 shares out of the 22,950 shares were from unissued shares of Yondu while 17,950 shares were purchased from GTI. Purchase price of unissued shares and shares previously held by GTI amounted to ₱230.00 million and

₱670.00 million, respectively. The purchase resulted to a 51% ownership by the Parent Company in Yondu.

Included in the Shareholders' Agreement are a call and put option granting the Parent Company the right to require GTI to sell and granting GTI the right to require the Parent Company to purchase all, but not part only, of the 49% shareholding of GTI in Yondu at ₱39,215.69 per company share, respectively. The options will be effective starting September 16, 2016 and will expire after two years, therefrom. The put option and call option shall be exercised by a share swap of Xurpas shares for shares held by GTI or a combination of share swap and cash, at the mutual agreement of both parties.

A financial liability amounting to ₱853.18 million was recognized in the consolidated financial statements of financial position for the redemption obligation related to the written put option over the shares held by GTI. The liability was recognized initially at the present value of the redemption price at acquisition date. Interest expense amounting to ₱4.68 million was recognized in the consolidated statements of comprehensive income in "General and administrative expenses" and is reflected in the net income attributable to the equity holders of the Parent Company.

The following are fair values of the identifiable assets and liabilities assumed:

| | |
|---|---|
| **Assets** | |
| Cash | ₱175,110,666 |
| Receivables | 598,921,607 |
| Other current assets | 38,071,606 |
| Property and equipment | 39,638,479 |
| Intangible assets | 1,187,626,747 |
| Deferred tax asset | 6,652,819 |
| Other noncurrent asset | 10,431,165 |
| | 2,056,453,089 |
| **Liabilities** | |
| Accounts and other payables | ₱582,669,211 |
| Income tax payable | 41,541,943 |
| Pension liability | 6,514,740 |
| Deferred tax liability | 355,471,170 |
| Other long-term liabilities | 3,900,000 |
| | 990,097,064 |
| Net assets | 1,066,356,025 |
| Noncontrolling interests in Yondu | 706,503,943 |
| Total net assets acquired | 359,852,082 |
| Goodwill | 540,147,918 |
| Acquisition cost | ₱900,000,000 |

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group elected to measure the noncontrolling interests in the acquiree at fair value.

The fair value of the noncontrolling interest has been estimated by determining the present value of discounted cash flow. The fair value measurements are based on significant inputs that are not observable in the market. The fair value estimate is based on:

- An assumed discount rate of 13.46%
- A terminal value, calculated based on long-term sustainable growth rates for the industry ranging from 2% to 4% which has been used to determine income for the future years

Cash on acquisition follows:

| | |
|---|---|
| Cash acquired from Yondu | ₱175,110,666 |
| Cash paid | 900,000,000 |
| Net cash flow | ₱724,889,334 |

From September 15 to December 31, 2015, the Group's share in revenue and net income of Yondu amounted to ₱235.89 million and ₱35.87 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱1,498.37 million, while the Group's net income would have been ₱312.98 million.

## 21. **Equity**

The details of the number of shares as at December 31, 2015 and 2014 follow:

| | **2015** | 2014 |
|---|---|---|
| Authorized - common shares (₱0.10 par value in 2015 and 2014) | **5,000,000,000** | 5,000,000,000 |
| Issued and outstanding | | |
| Balance at beginning of period | **1,720,000,660** | 3,250,000 |
| Issuance of new shares through: | | |
| Stock dividends | – | 122,500,000 |
| Cash subscription | – | 11,850,066 |
| Effect of 10-to-1 share split | – | 1,238,400,594 |
| | **1,720,000,660** | 1,376,000,660 |
| Issuance through IPO | – | 344,000,000 |
| Balance at end of period | **1,720,000,660** | 1,720,000,660 |

Capital Stock and Additional Paid-in Capital (APIC)
On May 2, 2014, the Parent Company's BOD approved the subscription and issuance of 6.75 million shares with par value of ₱1.00 per share from the unissued portion of its ₱10.00 million authorized capital stock.

On May 5, 2014, the Parent Company's BOD approved the following transactions which were subsequently approved by the SEC on June 25, 2014:

- Increase in authorized capital stock from ₱10.00 million divided into 10.00 million common shares with par value of ₱1.00 per share to ₱255.00 million divided into 255.00 common million shares with par value of ₱1.00 per share.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱10.00 million to ₱255.00 million.

- Subscription of 61.25 million shares with par value of ₱1.00 per share, which is paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

On July 10, 2014, the Parent Company's BOD approved the following transactions which were subsequently approved by the SEC on September 2, 2014:

- Increase in authorized capital stock from ₱255.00 million divided into 255.00 million common shares at the par value of ₱1.00 each to ₱500.00 million divided into 500.00 million common shares at the par value of ₱1.00 each.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱255.00 million to ₱500.00 million.
- Subscription of 61.25 million shares with par value of ₱1.00 per share, to be paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

In addition, the Parent Company issued the subscribed 61.25 million shares with par value of ₱1.00 per share and another 5.10 million shares with par value of ₱1.00 per share to certain executives and employees through cash payments.

On September 3, 2014, the Parent Company's BOD approved the decrease in the par value of the capital stock from ₱1.00 per share to ₱0.10 per share. Accordingly, the Parent Company applied for the Amendments Articles of Incorporation to decrease the par value of the capital stock. Thus, the Parent Company cancelled all the previously issued stock certificates and reissued new stock certificates to all stockholders effecting the 10-to-1 stock split.

*Initial Public Offering*
On November 12, 2014, PSE approved the 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.68 million) for the IPO of the Parent Company.

On November 13, 2014, the SEC granted the Parent Company permit to sell or offer its securities which consists of 1,720.00 million common shares.

The Parent Company was publicly listed on December 2, 2014.

As at December 31, 2014, ₱172.00 million of the ₱500.00 million authorized capital stock has been subscribed and issued, ₱122.55 million of which was issued through stock dividend declaration and the rest was paid in cash. The excess of subscription price over paid-up capital was recognized as APIC. The Parent Company incurred transaction costs incidental to the IPO amounting to ₱111.56 million and ₱7.35 million which were charged to "Additional paid-in capital" in the consolidated statements of financial position and "General and administrative expense" in the consolidated statements of comprehensive income, respectively.

<u>Retained Earnings</u>
*Appropriations*
On December 27, 2013, the Parent Company's BOD approved the appropriation of retained earnings for cash and stock dividend declaration amounting to ₱30.25 million and ₱61.25 million, respectively. These amounted to approximately ₱28.15 per share, or the aggregate amount of ₱91.50 million for distribution to its stockholders of record as at December 31, 2013 not later than November 30, 2014.

On May 5, 2014, the Parent Company's BOD approved the reversal of ₱91.50 million appropriations to unappropriated retained earnings to accommodate the stock and cash dividend declaration.

On June 25, 2014, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for stock and cash dividend declaration amounting to ₱61.25 million and ₱36.00 million, respectively.

On August 20, 2014, the Parent Company's BOD approved the reversal of ₱97.00 million appropriations to unappropriated retained earnings to accommodate the stock and cash dividend declaration.

On December 29, 2015, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱66.28 million.

*Dividends declaration*
Information on the Group's declaration of dividends follow:

| | | | Date | |
|---|---|---|---|---|
| | **Per Share** | **Amount** | **Record** | **Payable** |
| **Parent Company** | | | | |
| Cash dividend declared on: | | | | |
| April 29, 2015 | ₱0.04 | ₱68,800,026 | May 14, 2015 | June 2, 2015 |
| September 20, 2014 | 0.56 | 36,000,000 | Jun 30, 2014 | Sept. 30, 2014 |
| June 5, 2014 | 0.47 | 30,250,000 | Dec. 31, 2013 | Jun. 30, 2014 |
| November 18, 2013 | 5.13 | 16,666,667 | Sept. 30, 2013 | Nov. 29, 2013 |
| July 22, 2013 | 1.03 | 3,333,333 | Jun. 30, 2013 | Jul. 31, 2013 |
| May 6, 2013 | 0.83 | 2,700,000 | Dec. 31, 2012 | May 31, 2013 |
| March 13, 2013 | 3.08 | 10,000,000 | Dec. 31, 2012 | Mar. 31, 2013 |
| Stock dividend declared on: | | | | |
| July 10, 2014 | 0.95 shares | 61,250,000 | Sept. 20, 2014 | Sept. 20, 2014 |
| May 5, 2014 | 18.85 shares | 61,250,000 | May 5, 2014 | May 5, 2014 |

Equity Reserve
A reserve amounting to ₱848.50 million was set up in relation to a recognized financial liability for the written put option over the ownership interest of GTI in Yondu. This will be subsequently reversed once the option is exercised or has expired.

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:

| | **2015** | 2014 |
|---|---|---|
| Capital stock | **₱172,000,066** | ₱172,000,066 |
| Additional paid-in capital | **1,219,718,163** | 1,219,718,163 |
| Retained earnings | **250,798,331** | 98,539,176 |
| | **₱1,642,516,560** | ₱1,490,257,405 |

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies as at December 31, 2015 and 2014.

## 22. Noncontrolling Interests

Noncontrolling interests pertain to the following percentage interests in subsidiaries that the Parent Company does not own. Summarized financial information are provided for each of the subsidiaries. These information are based on the amounts before intercompany eliminations.

**35% Interest in Fluxion, Inc.**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Accumulated balances of noncontrolling interests | **₱6,184,418** | ₱11,263,488 | ₱8,635,356 |
| Profit allocated to noncontrolling interests | **3,019,841** | 8,648,886 | 7,097,429 |
| Other comprehensive income (loss) allocated to noncontrolling interests | **651,086** | (1,361,301) | (7,214) |

| | **2015** | 2014 |
|---|---|---|
| **Statements of financial position** | | |
| Current assets | **₱40,634,457** | ₱68,028,120 |
| Noncurrent assets | **2,585,474** | 2,394,741 |
| Current liabilities | **8,461,746** | 18,078,259 |
| Noncurrent liabilities | **17,088,418** | 38,241,459 |
| Dividends paid to noncontrolling interests | **8,750,000** | 4,666,667 |

| | **2015** | 2014 |
|---|---|---|
| **Statements of comprehensive income** | | |
| Service income | **₱50,488,632** | ₱68,946,976 |
| Total comprehensive income attributable to: | | |
| Equity holders of Xurpas Inc. | **6,817,437** | 16,062,216 |
| Noncontrolling interests | **3,670,928** | 7,294,799 |

| | **2015** | 2014 |
|---|---|---|
| **Statements of cash flows** | | |
| Net cash provided by operating activities | **10,434,395** | 12,170,832 |
| Net cash used in investing activities | **(572,083)** | (1,085,544) |
| Net cash used in financing activities | **(25,000,000)** | (13,333,333) |

**48.94% Interest in Storm Flex Systems, Inc.**

| | 2015 |
|---|---|
| Accumulated balances of noncontrolling interests | **₱35,430,220** |
| Loss allocated to noncontrolling interests* | **13,963,938** |

**This amount pertains to share in loss after acquisition*

| | 2015 |
|---|---|
| **Statement of financial position** | |
| Current assets | **₱117,215,262** |
| Noncurrent assets | **17,638,192** |
| Current liabilities | **58,572,226** |

| | 2015 |
|---|---|
| **Statement of comprehensive income** | |
| Sale of goods | **₱79,944,194** |
| Service income | **5,506,723** |
| Total comprehensive loss attributable to: | |
| Equity holders of Xurpas Inc. | **12,970,339** |
| Noncontrolling interests | **15,354,242** |

| | 2015 |
|---|---|
| **Statement of cash flows** | |
| Net cash used in operating activities | **(9,473,479)** |
| Net cash provided by investing activities | **17,522,562** |
| Net cash used in financing activities | **–** |

**30% Interest in Seer Technologies Inc. and Subsidiary**

| | 2015 |
|---|---|
| Accumulated balances of noncontrolling interests | **₱3,750,526** |
| Profit allocated to noncontrolling interests* | **1,581,238** |
| Other comprehensive income allocated to noncontrolling interests* | **240,366** |

**These amounts pertains to share in loss after acquisition*

| | 2015 |
|---|---|
| **Statement of financial position** | |
| Current assets | **₱44,809,854** |
| Noncurrent assets | **12,977,797** |
| Current liabilities | **39,531,340** |
| Noncurrent liabilities | **6,492,500** |

| | 2015 |
|---|---|
| **Statement of comprehensive income** | |
| Service income | **₱66,308,962** |
| Total comprehensive income attributable to: | |
| Equity holders of Xurpas Inc. | **4,250,409** |
| Noncontrolling interests | **(4,890,929)** |

| | 2015 |
|---|---|
| **Statement of cash flows** | |
| Net cash provided by operating activities | **₱3,915,733** |
| Net cash provided by investing activities | **16,799** |
| Net cash used in financing activities | **(3,638,797)** |

**33% Interest in Xeleb Inc.**

| | 2015 |
|---|---|
| Accumulated balances of noncontrolling interests | **(₱2,117,853)** |
| Loss allocated to noncontrolling interests | **(3,767,857)** |

| | 2015 |
|---|---|
| **Statement of financial position** | |
| Current assets | **₱14,883,072** |
| Noncurrent assets | **22,461,924** |
| Current liabilities | **43,762,745** |

| | 2015 |
|---|---|
| **Statement of comprehensive income** | |
| Service income | **₱7,148,187** |
| Total comprehensive loss attributable to: | |
| Equity holders of Xurpas Inc. | **7,649,892** |
| Noncontrolling interests | **3,767,857** |

| | 2015 |
|---|---|
| **Statement of cash flows** | |
| Net cash provided by operating activities | **₱14,445,295** |
| Net cash used in investing activities | **(18,230,621)** |
| Net cash provided by financing activities | **5,000,000** |

**49% Interest in Yondu Inc.**

| | 2015 |
|---|---|
| Accumulated balances of noncontrolling interests | **₱727,264,301** |
| Profit allocated to noncontrolling interests* | **20,679,038** |
| Other comprehensive income allocated to noncontrolling interests* | **81,320** |

**These amounts pertains to share in loss after acquisition*

| | 2015 |
|---|---|
| **Statement of financial position** | |
| Current assets | **₱787,126,557** |
| Noncurrent assets | **69,129,259** |
| Current liabilities | **569,868,750** |
| Noncurrent liabilities | **7,095,692** |

| | 2015 |
|---|---|
| **Statement of comprehensive income** | |
| Service income | **₱1,162,674,838** |
| Total comprehensive income attributable to: | |
| Equity holders of Xurpas Inc. | **21,607,720** |
| Noncontrolling interests | **171,130,694** |

| | 2015 |
|---|---|
| **Statement of cash flows** | |
| Net cash provided by operating activities | **₱149,427,729** |
| Net cash used in investing activities | **(15,437,313)** |
| Net cash used in financing activities | **(84,000,000)** |

## 23. Earnings Per Share

The Group's basic earnings per share for the years ended December 31, 2015, 2014 and 2013 were computed as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income attributable to the equity holders of the Parent Company | **₱221,059,181** | ₱182,070,562 | ₱112,390,678 |
| Weighted average number of outstanding shares | **1,720,000,660** | 1,064,690,970 | 430,625,000 |
| Basic/diluted earnings per share | **₱0.13** | ₱0.17 | ₱0.26 |

Earnings per share is calculated using the consolidated net income attributable to the equity holders of the Parent Company divided by weighted average number of shares. To determine the weighted average number of shares, the stock dividends issued on June 25, 2014 and 10-to-1 stock split approved on September 3, 2014 were retroactively adjusted. There are no potentially dilutive shares as of December 31, 2015, 2014 and 2013.

## 24. Financial Instruments

Fair Value

The methods and assumptions used by the Group in estimating fair value of the financial instruments are as follows:

Cash and cash equivalents, accounts receivable and accounts and other payables (excluding "Taxes payable", "Deferred output VAT", and statutory payables included as "Others") - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.

Financial assets at FVPL - These pertain to investment in UITF. Fair value of investment in UITF is based on NAV as at reporting dates.

AFS quoted equity security - Fair value is based on quoted prices published in the market and debt securities.

AFS unquoted equity security and AFS unquoted debt investments – For unquoted equity and debt investments with recent sales at arm's length transaction, fair values were determined using prices in such transaction.

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

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

AFS - quoted equity security amounting to ₱0.24 million and ₱0.23 million as at December 31, 2015 and 2014, respectively, were classified under Level 1 category.

Financial assets at FVPL, AFS unquoted equity and debt instruments and financial liability at FVPL - The fair value measurements are categorized under Level 2 of fair value hierarchy. Carrying amounts of these assets are set out below:

| | **2015** | 2014 |
|---|---|---|
| Financial assets at fair value through profit or loss | **₱80,317,867** | ₱500,431,059 |
| AFS unquoted equity investments | **44,244,956** | – |
| AFS unquoted debt investments | **41,132,123** | 3,602,123 |
| | **₱165,694,946** | ₱504,033,182 |

There have been no reclassifications from Level 1 to Level 2 or 3 categories for the year ended December 31, 2015.

Financial Risk Management and Objectives and Policies
The Group's financial instruments comprise cash and cash equivalents, accounts receivables, financial assets at FVPL, AFS financial assets, accounts and other payables (excluding taxes payable, deferred output VAT and statutory payables) and financial liability at FVPL, 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, liquidity risk and foreign currency 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 and cash equivalents (excluding “cash on hand) and accounts receivable. To manage credit risk, the Group monitors its exposure to credit risk on a continuous basis.

The Group entered into an agreement with GTI, wherein the former will provide mobile content services and mobile application development services to the latter in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile content services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI’s mobile phone subscribers. Mobile application development, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI’s mobile content products. The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 58% and 95% of its total trade receivables as at December 31, 2015 and 2014, respectively (see Note 5). Recent economic condition and market segment of GTI shows its continuing growth and success.

The table below shows the gross maximum exposure to credit risk of the Group.

**December 31, 2015**

| | **Carrying Amount** | **Fair Value of Credit Enhancement** | **Financial Effect of Credit Enhancement** | **Maximum Exposure to Credit Risk** |
|---|---|---|---|---|
| Cash in banks | **₱305,491,853** | **₱–** | **₱–** | **₱305,491,853** |
| Cash equivalents | – | – | – | – |
| Accounts receivables: | | | | |
| Trade receivables | **717,171,131** | – | – | **717,171,131** |
| Receivable from related parties | **697,318** | – | – | **697,318** |
| Advances to employees | **3,686,835** | – | – | **3,686,835** |
| Others | **38,339,002** | – | – | **38,339,002** |
| Financial assets at FVPL | **80,317,867** | – | – | **80,317,867** |
| AFS financial assets | **85,617,079** | – | – | **85,617,079** |
| Total | **₱1,231,321,085** | **₱** | **₱–** | **₱1,231,321,085** |

December 31, 2014

| | Carrying Amount | Fair Value of Credit Enhancement | Financial Effect of Credit Enhancement | Maximum Exposure to Credit Risk |
|---|---|---|---|---|
| Cash in bank | ₱456,200,343 | ₱1,500,000 | ₱1,500,000 | ₱454,700,343 |
| Cash equivalents | 500,000,000 | – | – | 500,000,000 |
| Accounts receivables: | | | | |
| Trade receivable | 137,108,320 | – | – | 137,108,320 |
| Receivable from related parties | 381,188 | – | – | 381,188 |
| Advances to employees | 665,563 | – | – | 665,563 |
| Interest receivable | 504,110 | – | – | 504,110 |
| Others | 26,889 | – | – | 26,889 |
| Financial assets at FVPL | 500,431,059 | – | – | 500,431,059 |
| AFS financial assets | 3,827,123 | – | – | 3,827,123 |
| Total | ₱1,599,144,595 | ₱1,500,000 | ₱1,500,000 | ₱1,597,644,595 |

The credit enhancement on cash in bank pertains to the insured deposit covered by Philippine Deposit Insurance Corporation which shall not exceed ₱500,000 to any bona fide depositor for legitimate deposits in an insured bank net of any obligation of the depositor to the insured bank as at the date of closure

The aging analysis of accounts receivables presented per class follows:

**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 receivable | **₱465,599,270** | **₱86,348,837** | **₱75,255,770** | **₱61,806,053** | **₱28,161,201** | **₱717,171,131** |
| Receivable from related parties | **697,318** | **–** | **–** | **–** | **–** | **697,318** |
| Advances to employees | **3,509,932** | **–** | **–** | **176,903** | **–** | **3,686,835** |
| Others | **31,659,016** | **–** | **–** | **6,679,986** | **–** | **38,339,002** |
| | **₱501,465,536** | **₱86,348,837** | **₱75,255,770** | **₱68,662,942** | **₱28,161,201** | **₱759,894,286** |

December 31, 2014

| | Neither Past Due nor Impaired | Past Due but Not Impaired | | | Impaired Financial Assets | Total |
|---|---|---|---|---|---|---|
| | | <30 days | 30 to <90 days | >90 days | | |
| Trade receivable | ₱74,190,980 | ₱44,279,844 | ₱4,469,610 | ₱14,167,886 | ₱– | ₱137,108,320 |
| Receivable from related parties | 381,188 | – | – | – | – | 381,188 |
| Advances to employees | 665,563 | – | – | – | – | 665,563 |
| Interest receivable | 504,110 | – | – | – | – | 504,110 |
| Others | 26,889 | – | – | – | – | 26,889 |
| | ₱75,768,730 | ₱44,279,844 | ₱4,469,610 | ₱14,167,886 | ₱– | ₱138,686,070 |

The tables show the credit quality by class of the Group’s financial assets as at December 31, 2015 and 2014.

**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 and cash equivalents | **₱305,491,853** | **₱–** | **₱–** | **₱–** | **₱–** | **₱305,491,853** |
| Accounts receivables: | | | | | | |
| Trade receivable | **465,599,270** | **–** | **–** | **223,410,660** | **28,161,201** | **717,171,131** |
| Receivable from related parties | **697,318** | **–** | **–** | **–** | **–** | **697,318** |
| Advances to employees | **3,509,932** | **–** | **–** | **176,903** | **–** | **3,686,835** |
| Interest receivable | **–** | **–** | **–** | **–** | **–** | **–** |
| Others | **31,659,016** | **–** | **–** | **6,679,986** | **–** | **38,339,002** |
| Financial asset at FVPL | **80,317,867** | **–** | **–** | **–** | **–** | **80,317,867** |
| AFS financial assets | **85,617,079** | **–** | **–** | **–** | **–** | **85,617,079** |
| | **₱972,892,335** | **₱–** | **₱–** | **₱230,267,549** | **₱28,161,201** | **₱1,231,321,085** |

December 31, 2014

| | Neither Past Due nor Impaired | | | Past due but not Impaired | Impaired Financial Assets | Total |
|---|---|---|---|---|---|---|
| | High Grade | Medium Grade | Low Grade | | | |
| Cash in banks and cash equivalents | ₱956,200,343 | ₱– | ₱– | ₱– | ₱– | ₱956,200,343 |
| Accounts receivables: | | | | | | |
| Trade receivable | 74,190,980 | – | – | 62,917,340 | – | 137,108,320 |
| Receivable from related parties | 381,188 | – | – | – | – | 381,188 |
| Advances to employees | 665,563 | – | – | – | – | 665,563 |
| Interest receivable | 504,110 | – | – | – | – | 504,110 |
| Others | 26,889 | – | – | – | – | 26,889 |
| Financial asset at FVPL | 500,431,059 | – | – | – | – | 500,431,059 |
| AFS financial assets | 3,827,123 | – | – | – | – | 3,827,123 |
| | ₱1,536,227,255 | ₱– | ₱– | ₱62,917,340 | ₱– | ₱1,599,144,595 |

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

Cash in banks and cash equivalents, financial assets at FVPL and quoted AFS financial assets - 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.

Accounts receivable - 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.

Unquoted AFS financial assets are unrated.

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 December 31, 2015 and 2014 are based on contractual undiscounted payments.

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

Foreign Currency Risk

The Group's exposure to foreign exchange rate is minimal as concentration of business is denominated in Philippine peso.

The following table shows the outstanding US dollar-denominated monetary assets and their respective Philippine peso equivalent as of December 31, 2015 and 2014.

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Original currency** | **Peso equivalent** | Original currency | Peso equivalent |
| Cash in bank | **$58,897** | **₱23,285,621** | $15,579 | ₱696,671 |
| Trade receivables | **796,388** | **36,663,803** | – | – |
| Total foreign currency denominated assets | **$855,285** | **₱59,949,424** | $15,579 | ₱696,671 |
| Trade Payable | **$209,188** | **₱9,879,298** | **$–** | **₱–** |

In translating the foreign currency-denominated monetary assets into Peso amounts, the exchange rates used were as follows:

| | **2015** | 2014 |
|---|---|---|
| USD to ₱ | **₱47.06** | ₱44.720 |

The following table demonstrates the sensitivity to a reasonably possible change in the PHP to USD exchange rate, with all other variables held constant, of the Company's income before tax.

| | Increase (decrease) in PHP to USD rate | Effect on income before income tax |
|---|---|---|
| **2015** | **+0.60** | **₱387,658** |
| | **-0.60** | **(387,658)** |
| 2014 | +0.40 | 6,232 |
| | -0.40 | (6,232) |

25. **Segment Reporting**

The industry segments where the Group operates follow:

- Mobile consumer services - includes airtime management, content development and management and marketing and advertising solutions
- Mobile enterprise services - includes platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services
- Knowledge process outsourcing - includes various enterprise solutions-based services to GTI and other companies for network, platform and applications development
- Other services - includes consultancy services in the field of human resource management, trading in general, sourcing for and supplying of goods to import and export goods

The following tables regarding business segment revenue and profit information for the years ended December 31, 2015, 2014 and 2013:

**2015**

| | **Mobile consumer services** | **Mobile enterprise services** | **Knowledge process outsourcing** | **Other services** | **Intersegment Adjustments** | **Consolidated** |
|---|---|---|---|---|---|---|
| Revenue from services to external customers | **₱583,198,532** | **₱91,507,932** | **₱151,947,898** | **₱4,516,466** | **(₱7,148,187)** | **₱824,022,641** |
| Revenue from sale of goods | **–** | **–** | **–** | **74,351,659** | **–** | **74,351,659** |
| Equity in net loss of associates | **(9,479,226)** | **–** | **–** | **–** | **–** | **(9,479,226)** |
| Operating expenses | **(276,341,921)** | **(79,095,923)** | **(111,314,861)** | **(117,904,343)** | **4,018,523** | **(580,638,525)** |
| Operating profit | **297,377,385** | **12,412,009** | **40,633,037** | **(39,036,218)** | **(3,129,664)** | **308,256,549** |
| Dividend income | **16,250,000** | **–** | **–** | **–** | **(16,250,000)** | **–** |
| Interest income | **9,762,120** | **81,824** | **78,895** | **7,263** | **(495,462)** | **9,434,640** |
| Other income | **7,241,380** | **4,677,922** | **99,977** | **1,390,173** | **–** | **13,409,452** |
| Provision for (benefit from) for income tax | **(96,780,054)** | **(3,272,845)** | **(13,197,869)** | **8,833,511** | **2,934,718** | **(101,482,539)** |
| Net income (loss) | **₱233,850,831** | **₱13,898,910** | **₱27,614,040** | **(₱28,805,271)** | **(₱16,940,408)** | **₱229,618,102** |
| **Net income (loss) attributable to:** | | | | | | |
| Equity holders of Xurpas, Inc. | | | | | | **₱221,059,181** |
| Noncontrolling interests | | | | | | **8,558,921** |
| | | | | | | **₱229,618,102** |

2014

| | Mobile consumer services | Mobile enterprise services | Intersegment Adjustments | Consolidated |
|---|---|---|---|---|
| Service income | ₱309,368,413 | ₱68,946,976 | ₱– | ₱378,315,389 |
| Cost and expenses | 119,280,341 | 33,797,890 | – | 153,078,231 |
| Operating profit | 190,088,072 | 35,149,086 | – | 225,237,158 |
| Dividend income | 8,666,667 | – | (8,666,667) | – |
| Interest income | 1,124,502 | 63,213 | – | 1,187,715 |
| Other income | 12,635,736 | 79,930 | – | 12,715,666 |
| Provision for income tax | (37,839,965) | (10,581,126) | – | (48,421,091) |
| Net income | ₱174,675,012 | ₱24,711,103 | (₱8,666,667) | ₱190,719,448 |
| Net income attributable to: | | | | |
| Equity holders of Xurpas Inc. | | | | ₱182,070,562 |
| Noncontrolling interests | | | | 8,648,886 |
| | | | | ₱190,719,448 |

2013

| | Mobile consumer services | Mobile enterprise services | Intersegment Adjustments | Consolidated |
|---|---|---|---|---|
| Service income | ₱190,011,822 | ₱61,802,421 | ₱– | ₱251,814,243 |
| Cost and expenses | 79,532,381 | 32,857,760 | – | 112,390,141 |
| Operating profit | 110,479,441 | 28,944,661 | – | 139,424,102 |
| Dividend income | 11,916,667 | – | (11,916,667) | – |
| Interest income | 124,998 | 49,988 | – | 174,986 |
| Other income | – | 67,219 | – | 67,219 |
| Provision for income tax | (11,399,847) | (8,778,353) | – | (20,178,200) |
| Net income | ₱111,121,259 | ₱20,283,515 | (₱11,916,667) | ₱119,488,107 |
| Net income attributable to: | | | | |
| Equity holders of Xurpas Inc. | | | | ₱112,390,678 |
| Noncontrolling interests | | | | 7,097,429 |
| | | | | ₱119,488,107 |

## 26. **Events After Reporting Date**

*Subscription to Xurpas Enterprise*
On February 16, 2016, the Board of Directors of the Parent Company approved the subscription to 4,999,994 shares of stock or 99.99% shareholdings in Xurpas Enterprise Inc. ("Xurpas Enterprise").

Xurpas Enterprise is a wholly owned subsidiary of the Parent Company focused on providing mobile enterprise solutions to corporate clients. Xurpas Enterprise shall leverage the extensive mobile technology expertise across the Group to help enable their business.

*Investment in Micro Benefits Limited*
On March 9, 2016, the Parent Company acquired 718,333 new Series C Preferred Shares ("Subscription Shares") equivalent to a 23.53% stake in Micro Benefits Limited (Micro Benefits) for US$10.00 million or ₱468.60 million. Micro Benefits, a company registered in Hong Kong, is engaged in the business of providing employee benefits to Chinese workers through its operating company, Micro Benefits Financial Consulting (Suzhou) Co. Ltd, located in China.

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group) as at December 31, 2015 and 2014 and for each of the three years ended December 31, 2015 and have issued our report thereon dated March 29, 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 K listed in the Index to the 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 consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic 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 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
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

March 29, 2016

## XURPAS INC. AND SUBSIDIARIES

## INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

**SCHEDULE A**

## XURPAS INC. AND SUBSIDIARIES
## 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 | ₱– | ₱393,149 | ₱– | ₱– |
| Cash in banks | | | | |
| Bank of the Philippine Islands | | | | |
| Current Account | – | 29,340,668 | – | 1,106 |
| Savings Account | – | 57,979,976 | – | 594,495 |
| US Dollar Account | – | 439,379 | – | 1,233 |
| Robinsons Bank | | | | |
| Savings Account | – | 22,937 | – | 772 |
| Security Bank | | | | |
| Savings Account | – | 106,573,729 | – | 1,232,824 |
| US Dollar Account | | 202,789 | | 12,709 |
| Unionbank | – | 4,082,050 | – | 7,275 |
| Eastwest | – | 8,248,143 | – | – |
| China Bank | | | | |
| Savings Account | – | 74,039,103 | – | 64,812 |
| US Dollar Account | – | 22,631,925 | – | 30,221 |
| Banco De Oro | | | | |
| Current Account | – | 1,931,154 | – | 6,021 |
| Financial assets at FVPL | – | 80,317,867 | – | 7,483,172 |
| Accounts receivables | | | | |
| Trade | – | 717,171,131 | – | – |
| Receivable from related parties | | 697,318 | | |
| Advances to employees | – | 3,686,835 | – | – |
| Others | – | 38,339,002 | – | – |
| AFS financial assets | | | – | – |
| Unquoted equity investments | – | 44,244,956 | – | – |
| Quoted equity investments | – | 240,000 | 240,000 | – |
| Unquoted debt investments | 41,132,123 | 41,132,123 | – | – |
| | ₱41,132,123 | ₱1,231,714,234 | ₱240,000 | ₱9,434,640 |

SCHEDULE B

## XURPAS INC. AND SUBSIDIARIES

## 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 | Current | Not Current | Balance at the end of the period |
|---|---|---|---|---|---|---|
| Advances to employees | ₱665,563 | ₱16,999,099 | ₱13,977,826 | ₱3,686,835 | ₱– | ₱3,686,835 |
| Accounts receivable from directors, officers, KMP and employees | 72,357 | 6,333,546 | 5,708,585 | 697,318 | – | 697,318 |
| | ₱737,920 | ₱23,332,645 | ₱19,686,411 | ₱4,384,153 | ₱– | ₱4,384,153 |

## XURPAS INC. AND SUBSIDIARIES
## SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

| | Amount Owed by XURPAS SUBSIDIARIES to XURPAS PARENT | | | |
|---|---|---|---|---|
| | Receivable Balance per Xurpas Parent | Payable Balance per Xurpas Subsidiaries | Current | Noncurrent |
| Storm Flex Systems, Inc. | ₱30,000,000 | ₱30,000,000 | ₱30,000,000 | ₱– |
| Seer Technologies, Inc. | 4,500,000 | 4,500,000 | 4,500,000 | – |
| Xeleb, Inc. | 41,786,915 | 41,786,915 | 41,786,915 | – |
| *Subtotal* | ₱76,286,915 | ₱76,286,915 | ₱76,286,915 | ₱– |

| | Amount Owed by XURPAS PARENT to XURPAS SUBSIDIARIES | | | |
|---|---|---|---|---|
| | Receivable Balance per Xurpas Subsidiaries | Payable Balance per Xurpas Parent | Current | Noncurrent |
| Storm Flex Systems, Inc. | ₱60,121,738 | ₱60,121,738 | ₱60,121,738 | ₱– |
| Seer Technologies, Inc. | 739,200 | 739,200 | 739,200 | – |
| Xeleb, Inc. | 2,915,060 | 2,915,060 | 2,915,060 | – |
| *Subtotal* | ₱63,775,998 | ₱63,775,998 | ₱63,775,998 | ₱– |

| | | | | |
|---|---|---|---|---|
| Total Eliminated Receivables | ₱140,062,913 | ₱140,062,913 | ₱140,062,913 | ₱– |

**SCHEDULE D**

# XURPAS INC. AND SUBSIDIARIES

## 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 |
|---|---|---|---|---|---|---|
| Goodwill | ₱– | ₱687,808,790 | ₱– | ₱– | ₱– | ₱687,808,790 |
| Customer Relationship | – | 1,077,809,700 | – | – | – | 1,077,809,700 |
| Developed Software | – | 111,123,483 | 4,693,062 | – | – | 106,430,421 |
| Leasehold Rights | – | 17,378,812 | 1,145,242 | – | – | 16,233,570 |
| | ₱– | ₱1,894,120,785 | ₱5,838,304 | ₱– | ₱– | ₱1,888,282,481 |

## XURPAS INC. AND SUBSIDIARIES
## 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 consolidated statements of financial position.***

**SCHEDULE F**

## XURPAS INC. AND SUBSIDIARIES
## 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 |

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

## XURPAS INC. AND SUBSIDIARIES

## 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 consolidated financial statement is filed.***

# XURPAS INC. AND SUBSIDIARIES
## SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK

**Capital Stock**

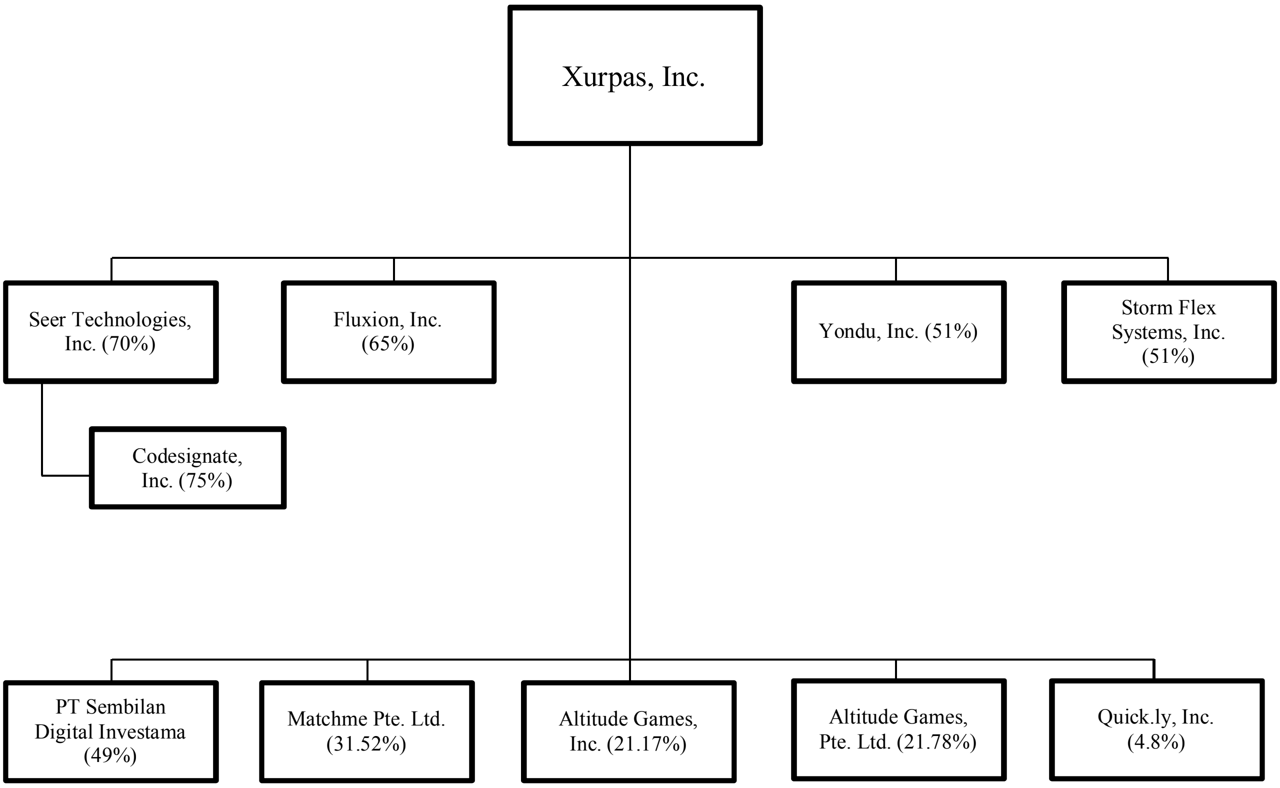
| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common shares | 5,000,000,000 | 1,720,000,660 | − | − | 1,364,380,938 | 355,619,722 |

## XURPAS INC. AND SUBSIDIARIES
## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

| | 2015 |
|---|---|
| Unappropriated Retained Earnings, beginning | ₱86,025,332 |
| Add: Net income during the period closed to retained earnings | |
| (Parent Company) | 221,059,181 |
| Equity in net loss of associates | 9,479,226 |
| Less: | |
| Unrealized gain from financial assets at FVPL | (317,867) |
| Benefit from deferred income tax expense | (37,556,413) |
| Cash dividends declared | (68,800,026) |
| Appropriations for dividend declaration | (65,819,709) |
| Unappropriated Retained Earnings, end available for dividend distribution | ₱144,069,724 |

**SCHEDULE J**

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



SCHEDULE K

# XURPAS INC. AND SUBSIDIARIES
# LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2015** | | **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 | | | ✓ |
| **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<br>Effective as at December 31, 2015** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **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 | ✓ | | |
| **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 | ✓ | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Investment Entities | ✓ | | |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| **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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2015 | | 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 | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **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 | ✓ | | |
| **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 | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group plans and disclosures | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | ✓ | | |
| **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 | | | ✓ |

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as at December 31, 2015** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| | Amendments to PAS 27: Investment Entities | ✓ | | |
| **PAS 28** | Investment in Associate | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| **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 | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| | Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2015 | | 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 | | | ✓ |
| **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<br>Effective as at December 31, 2015 | | 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 | | | ✓ |

# XURPAS INC. AND SUBSIDIARIES
# FINANCIAL RATIOS

| Financial Ratios | 2015 | 2014 |
|---|---|---|
| A. Current ratios | | |
| Current ratios | 84% | 1,241.72% |
| Quick ratios | 81% | 1,237.62% |
| B. Debt-to-equity ratios | 231% | 11% |
| C. Asset-to-equity ratios | 428% | 111.84% |
| 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 years ended December 31, 2014 and 2013* | |
| E. Profitability ratios | | |
| Net income margin | 25% | 48.13% |
| Gross margin | 57% | 70.17% |
| Operating margin | 39% | 63.95% |
| Return on total assets | 9% | 19.82% |
| Return on equity | 19% | 22.94% |

# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| A | 2 | 0 | 0 | 1 | 1 | 7 | 7 | 0 | 8 | |

**COMPANY NAME**

XURPAS INC.

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

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

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | SEC | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| info@xurpas.com | 889-6467 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 15 | May 11 | 2015 |

**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 |
|---|---|---|---|
| Nico Jose S. Nolledo | nix@xurpas.com | 889-6467 | N/A |

**CONTACT PERSON's ADDRESS**

7th Floor Cambridge Centre, 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.*

**"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS"**

The management of XURPAS INC. (the "Company") is responsible for the preparation and fair presentation of the financial statements as of and for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors (or Board of Trustees) reviews and approves the financial statements and submits the same to the stockholders (or members).

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders (or members), has expressed its opinion on the fairness of presentation upon completion of such examination.

**NICO JOSE S. NOLLEDO**
Chairman of the Board/ Chief Executive Officer

**ALEXANDER D. CORPUZ**
Chief Financial Officer

**ACKNOWLEDGMENT**

REPUBLIC OF THE PHILIPPINES)
MANILA ) S.S.

BEFORE ME, a Notary Public for and in MANILA, this MAR 2 9 2016 personally appeared:

| Name | Competent Evidence of Identity | Date/Place Issued |
|---|---|---|
| Nico Jose S. Nolledo | Passport No. EB8683342 | July 16, 2013/ DFA Manila |
| Alexander D. Corpuz | Passport No. EB9863376 | Dec. 20, 2013/DFA NCR East |

all known to me and to me known to be the same persons who executed the foregoing Statement of Management Responsibility consisting of two (2) pages, including this page and who acknowledged to me that the same are their true and voluntary act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and place first above written.

Doc No. 118;
Page No. 12;
Book No. 9;
Series of 2016.

ATTY. RONALD SEGUNDINO C. CHING
NOTARY PUBLIC MANILA
ROLL NO. 59[illegible]99
IBP NO. 9375041/12-21 15
PTR NO. 4357955/01-04-16
VALID UNTIL DEC. 31, 2016

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

**Report on the Parent Company Financial Statements**

We have audited the accompanying parent company financial statements of Xurpas Inc., which comprise the parent company statements of financial position as at December 31, 2015 and 2014, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company 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 Parent Company Financial Statements*

Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting, and for such internal control as management determines is necessary to enable the preparation of parent company 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.

SGV
Building a better
working world



*Opinion*

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Xurpas Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the parent company financial statements, is presented, for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Xurpas Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
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

March 29, 2016

## XURPAS INC.
## PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4 and 21) | **₱146,502,070** | ₱934,768,048 |
| Accounts receivable (Notes 5, 17 and 21) | **179,041,097** | 95,466,834 |
| Financial assets at fair value through profit or loss (Notes 6 and 21) | **80,317,867** | 500,431,059 |
| Available-for-sale financial assets (Notes 8 and 21) | **17,657,123** | – |
| Derivative asset (Notes 10 and 21) | **236,991,938** | – |
| Other current assets (Note 7) | **5,323,612** | 3,641,086 |
| Total Current Assets | **665,833,707** | 1,534,307,027 |
| **Noncurrent Assets** | | |
| Available-for-sale financial assets - net of current portion (Notes 8 and 21) | **67,959,956** | 3,827,123 |
| Investments in associates (Note 9) | **102,809,116** | 33,220,576 |
| Investments in subsidiaries (Note 10) | **1,056,561,679** | 3,851,571 |
| Property and equipment (Note 11) | **7,711,513** | 6,523,843 |
| Deferred tax asset - net (Note 18) | **8,366,599** | 4,967,223 |
| Other noncurrent assets | **27,708,201** | 1,189,992 |
| Total Noncurrent Assets | **1,271,117,064** | 53,580,328 |
| | **₱1,936,950,771** | **₱1,587,887,355** |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts and other payables (Notes 12, 17 and 21) | **₱93,457,675** | ₱94,210,452 |
| Income tax payable | **20,020,563** | 16,753,761 |
| Derivative liability (Notes 10 and 21) | **174,894,463** | – |
| Total Current Liabilities | **288,372,701** | 110,964,213 |
| **Noncurrent Liability** | | |
| Pension liability (Note 19) | **16,702,851** | 14,695,061 |
| Total Liabilities | **305,075,552** | 125,659,274 |
| **Equity** (Note 20) | | |
| Capital stock | **172,000,066** | 172,000,066 |
| Additional paid-in capital | **1,219,718,163** | 1,219,718,163 |
| Retained earnings | **241,273,865** | 78,944,703 |
| Net unrealized loss on available-for-sale financial assets (Note 8) | **(210,000)** | (225,000) |
| Cumulative translation adjustment on investments in associates (Note 9) | **6,484,416** | – |
| Retirement benefit reserve (Note 19) | **(7,391,291)** | (8,209,851) |
| Total Equity | **1,631,875,219** | 1,462,228,081 |
| | **₱1,936,950,771** | **₱1,587,887,355** |

*See accompanying Notes to Parent Company Financial Statements.*

## XURPAS INC.
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **REVENUE** | | |
| Service income (Note 13) | **₱491,984,974** | ₱309,368,413 |
| Interest income (Notes 4 and 17) | **9,677,948** | 1,124,502 |
| Gain on remeasurement of derivatives (Note 10) | **736,282** | – |
| Other income (Notes 6 and 11) | **23,391,404** | 21,302,402 |
| | **525,790,608** | 331,795,317 |
| **COST AND EXPENSES** | | |
| Cost of services (Note 14) | **124,486,913** | 91,674,795 |
| General and administrative expenses (Note 15) | **66,121,534** | 27,605,546 |
| Equity in net loss of associates (Note 9) | **9,479,226** | – |
| | **200,087,673** | 119,280,341 |
| **INCOME BEFORE INCOME TAX** | **325,702,935** | 212,514,976 |
| **PROVISION FOR INCOME TAX** (Note 18) | **94,573,747** | 37,839,965 |
| **NET INCOME** | **₱231,129,188** | ₱174,675,011 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| *Item that may be reclassified to profit or loss in subsequent periods:* | | |
| Unrealized gain on available-for-sale financial assets (Note 8) | **15,000** | 5,000 |
| Cumulative translation adjustment on investments in associates (Note 9) | **6,484,416** | – |
| *Item that will not be reclassified to profit or loss in subsequent periods:* | | |
| Actuarial gain (loss) on pension liabilities - net of income tax effect (Note 19) | **818,560** | (8,236,722) |
| | **7,317,976** | (8,231,722) |
| **TOTAL COMPREHENSIVE INCOME** | **₱238,447,164** | ₱166,443,289 |

*See accompanying Notes to Parent Company Financial Statements.*

# XURPAS INC.
## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **CAPITAL STOCK** - ₱0.10 par value (Note 20) | | |
| Authorized - 5,000,000,000 shares | | |
| Issued and outstanding - 1,720,000,660 shares | | |
| Balance at beginning of year | **₱172,000,066** | ₱3,250,000 |
| Issuance of common shares through cash subscription | – | 168,750,066 |
| Balance at end of year | **172,000,066** | 172,000,066 |
| **ADDITIONAL PAID-IN CAPITAL** (Note 20) | | |
| Balance at beginning of year | **1,219,718,163** | – |
| Issuance of common shares through cash subscription | – | 1,219,718,163 |
| Balance at end of year | **1,219,718,163** | 1,219,718,163 |
| **RETAINED EARNINGS** (Note 20) | | |
| Appropriated | | |
| Balance at beginning of year | – | 91,500,000 |
| Appropriations for dividend declaration | **65,819,709** | 97,250,000 |
| Release of appropriation for dividend declaration | – | (188,750,000) |
| Balance at end of year | **65,819,709** | – |
| Unappropriated | | |
| Balance at beginning of year | **78,944,703** | 1,519,692 |
| Net income | **231,129,188** | 174,675,011 |
| Appropriations for dividend declaration | **(65,819,709)** | (97,250,000) |
| Release of appropriation for dividend declaration | – | 188,750,000 |
| Stock dividends | – | (122,500,000) |
| Cash dividends | **(68,800,026)** | (66,250,000) |
| Balance at end of year | **175,454,156** | 78,944,703 |
| | **241,273,865** | 78,944,703 |
| **NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS** (Note 8) | | |
| Balance at beginning of year | **(225,000)** | (230,000) |
| Changes in fair value of available-for-sale financial assets | **15,000** | 5,000 |
| Balance at end of year | **(210,000)** | (225,000) |
| **ACTUARIAL LOSS ON PENSION LIABILITIES, NET OF INCOME TAX EFFECT** (Note 19) | | |
| Balance at beginning of year | **(8,209,851)** | 26,871 |
| Movement during the year | **818,560** | (8,236,722) |
| Balance at end of year | **(7,391,291)** | (8,209,851) |
| **CUMULATIVE TRANSLATION ADJUSTMENT ON INVESTMENTS IN ASSOCIATES** | | |
| Movement during the year | **6,484,416** | – |
| | **₱1,631,875,219** | ₱1,462,228,081 |

*See accompanying Notes to Parent Company Financial Statements.*

## XURPAS INC.
## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱325,702,935** | ₱212,514,976 |
| Adjustments for: | | |
| Equity in net loss of associates (Note 9) | **9,479,226** | – |
| Unrealized foreign currency exchange loss | **1,870,091** | 237 |
| Pension expense (Note 19) | **3,177,162** | 563,350 |
| Depreciation and amortization (Notes 11, 14 and 15) | **3,056,540** | 1,112,395 |
| Provision for impairment losses (Note 15) | **789,015** | 1,828 |
| Unrealized gain on financial assets at FVPL (Note 6) | **(317,867)** | (431,059) |
| Realized gain from withdrawal of financial asset at FVPL | **(5,473,524)** | – |
| Gain on remeasurement of derivatives | **(736,282)** | – |
| Interest income (Notes 4 and 17) | **(9,677,948)** | (1,124,502) |
| Dividend income (Notes 10 and 17) | **(16,250,000)** | (8,666,667) |
| Operating income before changes in working capital | **311,619,348** | 203,970,558 |
| Increase in: | | |
| Accounts receivable | **(84,312,470)** | (40,025,800) |
| Other current assets | **(1,682,526)** | (1,515,196) |
| Increase (decrease) in accounts and other payables | **(45,633,939)** | 52,033,315 |
| Net cash generated from operations | **179,990,413** | 214,462,877 |
| Dividend received | **16,250,000** | 8,666,667 |
| Interest received | **9,627,140** | 620,392 |
| Income taxes paid | **(95,057,132)** | (24,446,516) |
| Net cash provided by operating activities | **110,810,421** | 199,303,420 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from redemption of investments in financial asset at FVPL | **505,904,583** | – |
| Additions to: | | |
| Property and equipment (Note 11) | **(4,244,210)** | (6,303,747) |
| Financial assets at FVPL (Note 6) | **(80,000,000)** | (500,000,000) |
| Available-for-sale financial assets (Note 8) | **(81,774,956)** | – |
| Investments in associates (Note 9) | **(87,823,926)** | (17,980,000) |
| Investments in subsidiaries | **(1,053,949,563)** | – |
| Increase in other noncurrent assets | **(26,518,210)** | (1,079,740) |
| Net cash used in investing activities | **(828,406,282)** | (525,363,487) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid (Note 20) | **(68,800,026)** | (66,250,000) |
| Issuance of shares (Note 20) | – | 1,377,530,064 |
| Transaction cost (Note 20) | – | (111,561,835) |
| Net cash provided by (used in) financing activities | **(68,800,026)** | 1,199,718,229 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(786,395,887)** | 873,658,162 |
| **EFFECT OF CHANGE IN FOREIGN EXCHANGE RATE** | **(1,870,091)** | (237) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **934,768,048** | 61,110,123 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱146,502,070** | ₱934,768,048 |

*See accompanying Notes to Parent Company Financial Statements.*

# XURPAS INC.
# NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. **Corporate Information**

Xurpas Inc. (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 26, 2001. The principal activities of the Parent Company is to develop, produce, sell, buy or otherwise deal in products, goods or services in connection with the transmission, receiving, or exchange of voice, data, video or any form or kind of communication whatsoever.

The Parent Company's registered office address and principal place of business is at 7th Floor, Cambridge Centre, 108 Tordesillas St. Salcedo Village, Makati City. On May 5, 2014, the BOD approved the amended Articles of Incorporation to reflect the change in business address from its previous office address at 1903 Antel 2000 Corporate Centre 121 Valero St. Salcedo Village, Makati City and its principal place of business, which is also registered with BIR is at 24B Trafalgar Plaza, 105 HV Dela Costa St., Salcedo Village, Makati City to the current address. On June 25, 2014, the SEC certified the amended Articles of Incorporation amending the principal place of business.

On November 12, 2014, Philippine Stock Exchange (PSE) has approved the listing of 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.68 million) for initial public offering of Xurpas Inc.

On November 13, 2014, the SEC granted Xurpas Inc. permit to sell or offer its securities which consist of 1,720.00 million common shares.

On December 2, 2014, the Parent Company's shares of stock were listed in the PSE (see Note 20).

The accompanying parent company financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 29, 2016.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying parent company financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments which have been measured at fair value. The parent company financial statements are presented in Philippine Peso (₱), the Parent Company's functional currency. All amounts were rounded off to the nearest peso, except when otherwise indicated.

Statement of Compliance
The accompanying parent company financial statements as at December 31, 2015 and 2014 have been prepared in accordance with Philippine Financial Reporting Standard (PFRS).

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of the previous financial year 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 parent company financial statements.

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These Amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is not relevant to the Parent Company, since the Parent Company does not have a defined benefit plan with contributions from employees or third parties.

*Annual Improvements to PFRSs (2010-2012 cycle)*
These improvements are effective from July 1, 2014 and the Parent Company has applied these amendments for the first time in its financial statements. Unless otherwise stated, these amendments have no impact on the Parent 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*
  The Amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Amendments affect disclosures only and have no impact on the Parent Company's financial position and performance.

- 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)*
These improvements are effective for annual periods beginning on or after July 1, 2014 and are not expected to have a material impact on the Parent 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 Parent Company will adopt the following amended standards and interpretations when these become effective. Except as otherwise indicated, the Parent Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the parent company 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)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.
  The Parent Company has opted to early adopt this amendment and accounted for its investments in associates using the equity method. Restrospective application of this amendment has no significant impact on the reported balances for the prior year for its investments in associates.
- 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 Parent Company. They include:

- PFRS 5, *Non-current 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 - regional market 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 Parent Company's financial assets and impairment methodology for financial assets but will have no impact on the classification and measurement of the Parent Company's financial liabilities. The Parent 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 standards issued by the IASB have 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 Parent 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, *Revenue from Contracts with Customers*. 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 Parent 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 and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from date of placement and that are subject to an insignificant risk of changes in value.

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 Parent 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 Parent 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see Note 21).

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, the Parent 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 Parent Company recognizes a financial asset or a financial liability in the parent company 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 FVPL.

The Parent Company 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 Parent 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 and 2014, the Parent Company's financial instruments are of the nature of loans and receivables, financial assets at FVPL, AFS financial assets, financial liabilities at FVPL 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 Parent 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 Parent Company determines the appropriate method of recognizing the 'day 1' difference amount. Accounts receivable 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.

*Financial assets at FVPL*
Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except where the embedded derivatives does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Derivatives embedded in the host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

Financial assets at FVPL are recorded in the parent company statements of financial position at fair value, with changes in the fair value recorded in the parent company statement of comprehensive income, included under "Other income" account.

As at December 31, 2015 and 2014, the Parent Company holds its investment in Unit Investment Trust Fund (UITF) Security Bank (SB) Peso money market fund as held for trading and classified these as financial assets at FVPL (see Note 6). An embedded derivative recognized separately from its host contract is also included in this category as at December 31, 2015 (see Note 10).

*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 cash equivalents" and "Accounts receivable" accounts in the parent company 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 in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss as "Provision for impairment losses" under "General and administrative expenses" account. Accounts receivables are included in current assets if maturity is within twelve (12) months from the reporting date.

*AFS financial assets*
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM financial assets, or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include convertible bonds and equity investments.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in 'Net unrealized gain (loss) on available-for-sale financial assets' in the statement of comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the profit or loss and removed from unrealized gain or loss on AFS financial assets.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Parent Company evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Parent Company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the forseeable future, the Parent Company may reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Parent Company has the ability and intent to hold these assets for the forseeable future or until maturity. Reclassification to HTM financial assets category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

When the security is disposed of, the cumulative gain or loss previously recognized in changes in equity is recognized as 'Other income' in the profit or loss. Where the Parent Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. The losses arising from impairment of such financial assets are recognized as 'Provision for impairment losses' in profit or loss.

The Parent Company's AFS financial assets pertain to convertible bonds and quoted and unquoted equity securities. AFS financial assets are included in current assets if expected to be realized within twelve (12) months from the reporting date.

*Financial liabilities at FVPL*
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities at FVPL are recorded in the parent company statements of financial position at fair value, with changes in the fair value recorded in the consolidated statement of comprehensive income, included under "Other expenses" account.

As at December 31, 2015, the Parent Company's financial liabilities at FVPL pertains to an embedded derivative recognized separately from its host contract (Note 20). As at December 31, 2014, the Parent Company has no financial liabilities at FVPL.

*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 Parent Company's "Accounts and other payables" (except "Taxes payable", "Deferred output VAT" 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 Parent 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 Parent 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 Parent 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. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of 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 Parent Company to reduce any differences between loss estimates and actual loss experience.

*AFS financial assets*
For AFS financial assets, the Parent Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from other comprehensive income and recognized in profit or loss as “Miscellaneous” under “General and administrative expenses” account. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

<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 Parent 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 Parent 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 Parent 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 Parent 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 Parent 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 Parent 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.

Investments in Associates
The Parent Company's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

When accounting for investments in associates using the equity method, on acquisition of the investment, the excess of the cost of investment over the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the associate. Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share in the net assets of the associate, less any impairment in values. The statement of income reflects the share of the results of the operations of the associate company. The Parent Company's share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Parent Company and the associate company are eliminated to the extent of the interest in the associate company and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Parent Company discontinues applying the equity method when the investment in associate company is reduced to zero. Accordingly, additional losses are not recognized unless the Parent Company has guaranteed certain obligations of the associate company. When the associate company subsequently report net income, the Parent Company will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associate company and the Parent Company are identical and the associate company's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Parent Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investments in Subsidiaries
Investments in subsidiaries are accounted for under the cost method of accounting. A subsidiary is an entity one which the Parent Company has control. The Parent Company controls an entity when it is exposed, or has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity.

The Parent Company recognizes income from the investment only to the extent that the Parent Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

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.

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 Parent Company 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 |
|---|---|
| Information Technology (IT) equipment | 4 |
| Office equipment | 4 |
| Furniture and fixtures | 4 |
| Leasehold improvements | 4 years or lease term, whichever is shorter |

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.

Impairment of Nonfinancial Assets
The Parent Company 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 Parent Company 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

of disposal 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 profit or loss in those expense categories consistent with the function of the impaired asset.

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 or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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.

*Investments in Subsidiaries and Associates*
The Parent Company also determines at each reporting date whether there is any objective evidence that the investments in subsidiaries and associates are impaired. If this is the case, the Parent Company calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate company and recognizes the difference in profit or loss.

In assessing impairment indicators, the Parent Company considers, as a minimum, the following indicators: (a) dividends exceeding the total comprehensive income of the associate in the period the dividend is declared; or (b) the carrying amount of the investment in the separate financial statements exceeding the carrying amount of the associate's net assets, including goodwill.

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 Parent 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.

The Parent Company incurred various costs in issuing its own equity instruments. Those costs includes registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense.

*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.

*Stock dividends*
A stock dividend is considered to be small if the new shares being issued are less than 20-25% of the total number of shares outstanding prior to the stock dividend. On the declaration date of a small stock dividend, the dividend recorded is equal to market value of the shares being issued.

A stock dividend is considered to be large if the new shares being issued are more than 20-25% of the total value of shares outstanding prior to the stock dividend. On the declaration date of a large stock dividend, the dividend recorded is equal to the par value of the shares being issued.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Parent Company 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 Parent Company assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Parent Company is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Service income*
Service income is recognized when the service has been rendered in accordance with the terms of the contract.

*Dividend income*
Dividend income is recognized when the Parent Company's right to receive the payment is established.

*Interest income*
Interest income is recognized as it accrues.

*Other income*
Other income is recognized as they accrue.

<u>Cost and Expenses</u>
"Cost of services" and "General and administrative expenses" are expenditures that arise in the course of the ordinary operations of the Parent Company. 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 sales have been recognized.

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

*Earn-out payment*
Earn-out payments pertaining to payments to former owners of an acquired subsidiary are considered remuneration for their continuing employment and are presented in the parent company statements of comprehensive income in “General and administrative expenses”.

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).

*Parent Company 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 authorities. 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. 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.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and associates.

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. 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 year 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 recognized 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 sales tax 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 parent company statements of financial position.

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 nonroutine 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 Parent 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.

Foreign Currency Transactions
The Parent Company's financial statements are presented in Philippine Peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which the Parent Company operates.

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.

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

## 3. Significant Accounting Judgments and Estimates

The preparation of the accompanying parent company financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the parent company financial statements and accompanying notes. The judgments and estimates used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the parent company financial statement. 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 parent company 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 Parent 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 Parent Company's financial statements:

a. *Evaluating impairment of AFS financial assets*

   The Parent 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.

   In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Parent Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Parent Company evaluates other factors, including normal volatility in share price for quoted equities (Note 8).

   In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost.

   The carrying values of the Parent Company's AFS financial assets amounted to ₱85.61 million and ₱3.83 million as at December 31, 2015 and 2014, respectively (see Note 8).

b. *Control over subsidiaries*

   The Parent Company determined that it has control over its subsidiaries by considering, among others, its power over 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 following were also considered:

   - The contractual arrangement with the other vote holders of the investee
   - Rights arising from other contractual agreements
   - The Parent Company's voting rights and potential voting rights

c. *Existence of significant influence over associates*

   The Parent Company determined that it exercises significant influence over its associates (see Note 9) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

d. *Operating lease commitments - Parent Company as lessee*

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

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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.

a. *Estimating allowance for impairment losses*

   The Parent Company estimates the level of allowance for impairment losses on accounts receivable 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 among others, the length of the relationships with the customers, customers' payment behavior, known market factors, age and status of receivables. The Parent Company 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 expenses for any period would differ depending on the judgments and estimates made for the year. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

   The carrying values of the Parent Company's accounts receivables amounted to ₱179.04 million and ₱95.47 million as at December 31, 2015 and 2014, respectively (see Note 5).

b. *Fair value of put and call options*

   The acquisition of Yondu on September 15, 2015 gave rise to purchased call option and a written put option for the Parent Company. The call and put options were valued using the binomial option pricing model. As of December 31, 2015, the call and put option has a positive value of ₱236.99 million and a negative value of ₱174.89 million, respectively. (see Notes 10 and 21)

c. *Estimating useful lives of property and equipment*

   The Parent Company estimates the useful lives of these assets based on the period over which the assets are expected to be available for use. The Parent Company 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 depreciation and amortization expense and decrease noncurrent assets.

   The net book value of property and equipment as at December 31, 2015 and 2014 amounted to ₱7.71 million and ₱6.52 million, respectively (see Note 11).

d. *Evaluating impairment of nonfinancial assets*

   The Parent Company assesses impairment on its other current assets, investments in associates, investments in subsidiaries, property and equipment, and other noncurrent assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The factors that the Parent 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.

As described in the accounting policy, the Parent Company estimates the amount of impairment as being the difference between the recoverable amount and the carrying value of the asset. In determining the recoverable amount, the Parent Company is required to make estimates and assumptions on inputs used in its calculation.

The carrying values of these nonfinancial assets follow:

| | **2015** | 2014 |
|---|---|---|
| Other current assets (Note 7) | **₱5,323,612** | ₱3,641,086 |
| Investments in associates (Note 9) | **102,809,116** | 33,220,576 |
| Investments in subsidiaries (Note 10) | **1,056,561,679** | 3,851,571 |
| Property and equipment (Note 11) | **7,711,513** | 6,523,843 |
| Other noncurrent assets | **27,700,287** | 1,189,992 |
| | **₱1,200,106,207** | ₱48,427,068 |

e. *Recognizing deferred tax assets*
The Parent 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 Parent Company will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Parent Company looks at its projected performance in the sufficiency of future taxable income.

The Parent Company's recognized deferred tax assets amounted to ₱8.37 million and ₱4.97 million as at December 31, 2015 and 2014, respectively (see Note 18).

## 4. Cash and Cash Equivalents

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Cash on hand and in banks | **₱146,502,070** | ₱434,768,048 |
| Cash equivalents | – | 500,000,000 |
| | **₱146,502,070** | ₱934,768,048 |

Cash in banks earn interest at the prevailing bank deposit rates.

Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Parent Company, and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱8.99 million and ₱1.12 million in 2015 and 2014, respectively.

## 5. Accounts Receivable

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Trade receivables | **₱102,304,348** | ₱94,209,345 |
| Receivable from related parties (Note 17) | **74,696,597** | 308,831 |
| Interest receivable | **554,918** | 504,110 |
| Advances to employees | **176,903** | 417,657 |
| Others | **1,788,515** | 26,891 |
| | **179,521,281** | 95,466,834 |
| Less: Allowance for impairment loss | **(480,184)** | − |
| | **₱179,041,097** | ₱95,466,834 |

Trade receivables arise mainly from the mobile content development services rendered by the Parent Company to its major customer, Globe Telecommunications, Inc. (GTI) and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of December 31, 2015 and 2014, the Parent Company's receivables from GTI amounted to ₱92.85 million and ₱87.52 million, respectively, which comprise 91% and 93%, respectively, of the total trade receivables (see Note 21).

Interest receivable pertains to interest on short-term advances to subsidiaries and is expected to be settled within one year.

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

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

## 6. Financial Assets at Fair Value through Profit or Loss

The Parent Company invested in the SB Peso Money Market Fund (the Fund) on December 9, 2014. The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. In 2015, the Parent Company redeemed its investment for working capital purposes. This resulted to a realized gain recognized under "Other income" amounting to ₱5.48 million. In 2015, the Company made another investment in the Fund amounting to ₱80.00 million. The fair value of the Parent Company's total investment in the Fund amounted to ₱80.32 million and ₱500.43 million as of December 31, 2015 and 2014, respectively.

The fair value of the investment in UITF is valued at ₱107.02 and ₱124.10 NAV per unit as at December 31, 2015 and 2014, respectively, and is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available such as quoted market prices or dealer quotes for similar instruments. Thus, the fair value measurement is categorized under Level 2 of fair value hierarchy (Note 21).

For the year ended December 31, 2015 and 2014, the Parent Company recognized unrealized gain from financial assets at FVPL under "Other income" amounting to ₱0.32 million and ₱0.43 million, respectively.

## 7. Other Current Assets

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Deferred input VAT | **₱3,124,996** | ₱3,641,086 |
| Advances to contractors | **2,198,616** | – |
| | **₱5,323,612** | ₱3,641,086 |

Deferred input VAT represents input VAT related to unpaid balances for the services availed by the Parent Company. These will be recognized as input VAT and applied against output VAT upon payment. Any remaining balance is recoverable in the future periods.

Advances to contractors pertain to downpayment for the renovation of the Parent Company's new office, which will be applied against future billings.

## 8. Available-for-Sale Financial Assets

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Unquoted equity investments | **₱44,244,956** | ₱– |
| Quoted equity investments | **240,000** | 225,000 |
| Unquoted debt investments | **41,132,123** | 3,602,123 |
| | **85,617,079** | 3,827,123 |
| Less: current portion | **17,657,123** | – |
| | **₱67,959,956** | ₱3,827,123 |

The rollforward analysis of net unrealized loss on AFS financial asset follow:

| | 2015 | 2014 |
|---|---|---|
| Balance at beginning of year | **(₱225,000)** | (₱230,000) |
| Unrealized gain on AFS financial asset | **15,000** | 5,000 |
| Balance at end of year | **(₱210,000)** | (₱225,000) |

*Unquoted equity investments*
In April 2015, the Parent Company acquired 666,666 million shares of Series A Preferred Stock of Quick.ly, Inc. ("Quick.ly") at a purchase price of $1.50 per share for a total investment of US$999,999 or ₱44.24 million. As at December 31, 2015, the Parent Company holds a 4.22% ownership of Quick.ly on a fully-diluted basis.

Fair value of unquoted equity investments was determined using prices from recent sales at arm's length transaction. No unrealized gain or loss was recognized during the year for these investments (Note 21).

*Quoted equity investments*
Quoted equity instruments consist of investment in golf club shares.

*Unquoted debt investments*
Einsights Pte, Ltd.
On September 30, 2015, the Parent Company purchased a convertible promissory note for US$500,000 issued by Einsights Pte, Ltd. ("Einsights"), a Singapore-based technology solutions provider with operations in Singapore, Vietnam, Hong Kong, India, Australia, Canada and Switzerland. The convertible promissory note will mature after 18 months from closing date with applicable interest rate at 3% per annum.

MatchMe Pte. Ltd.
On November 2, 2015, the Parent Company acquired a convertible promissory note for US$300,000 issued by MatchMe Pte. Ltd. ("MatchMe"), an associate of the Parent Company based in Singapore (Note 9). The principal and interest will be due and payable six (6) months from the date of the note. Interest will accrue at 5% per annum.

Pico Candy Pte. Ltd.
In August 2013, the Parent Company invested in Pico Candy Pte. Ltd.'s convertible bonds amounting to SG $0.10 million, which is equivalent to ₱3.60 million. Pico Candy Pte. Ltd. operates a digital sticker distribution platform. It was founded in 2013 and is based in Singapore.

Carrying amount of the investments in unquoted debt investments as of December 31, 2015 and 2014 are as follows:

| | **2015** | 2014 |
|---|---|---|
| Einsights Pte, Ltd | **₱23,475,000** | ₱– |
| MatchMe Pte. Ltd | **14,055,000** | – |
| Pico Candy Pte. Ltd | **3,602,123** | 3,602,123 |
| | **₱41,132,123** | ₱3,602,123 |

The quoted shares are categorized under the Level 1 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 2 (Note 21).

## 9. Investments in Associates

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **₱33,220,576** | ₱– |
| Additions during the year | **72,583,350** | 33,220,576 |
| Cumulative translation adjustment | **6,484,416** | – |
| Equity in net loss during the year | **(9,479,226)** | – |
| Balance at end of year | **₱102,809,116** | ₱33,220,576 |

The Parent Company's equity in the net assets of associates and the related percentages of ownership are shown below:

| | Percentages of Ownership | | Carrying Amounts | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Altitude Games Pte. Ltd. | **21.78%** | 21.78% | **₱31,403,073** | ₱33,220,576 |
| Altitude Games Inc. | **21.17** | – | **108,776** | – |
| MatchMe Ltd. | **31.52** | – | **60,468,564** | – |
| Sembilan Digital Investama | **49.00** | – | **10,828,703** | – |
| | | | **₱102,809,116** | ₱33,220,576 |

*Altitude Games Pte. Ltd.*
On December 11, 2014, the Parent Company acquired 11.76% stake for 13.33 million ordinary shares in Altitude Games PTE Ltd ("Altitude Games"), a Singaporean IT company engaged in computer game development and publishing. The Parent Company paid ₱17.98 million as consideration for the said investment.

On the same date, Mr. Nico Jose S. Nolledo, a stockholder, assigned his 11.36 million ordinary shares representing 10.02% ownership in Altitude Games pursuant to the Deed of Assignment to the Parent Company. Accordingly, the Parent Company recognized payable to a stockholder amounted to ₱15.24 million from the said assignment (see Note 17).

As at December 31, 2015 and 2014, the Parent Company owns 21.78% ownership in Altitude Games resulting from the said acquisitions. The Parent Company acquired a total of 24.69 million shares with par value of US$0.01 per share for a total consideration of US$740,800 or US$0.03 per share.

*Altitude Games Inc.*
On July 22, 2015, the Parent Company subscribed to 211,656 shares of stock or 21.17% shareholdings in Altitude Games Inc. ("Altitude Philippines"), an affiliate of Altitude Singapore. Altitude Philippines engages in the business of development, design, sale and distribution of games and applications.

*MatchMe Pte. Ltd.*
On March 30, 2015, the Parent Company acquired 1,000,000 ordinary shares of MatchMe Pte. Ltd. ("MatchMe"), an international game development company based in Singapore, for a total consideration amounting to ₱60.47 million.

*PT Sembilan Digital Investama*
On March 26, 2015, the Parent Company acquired 147 shares representing 49% shareholdings in PT Sembilan Digital Investama (SDI) amounting to ₱10.83 million. The acquisition gave the Parent Company access to PT Ninelives Interactive ("Ninelives"), a mobile content and distribution company in Indonesia, which SDI owns.

Following are the significant financial information of the significant associates as of December 31, 2015:

*Altitude Games Pte. Ltd.*

| | 2015 |
|---|---|
| Total assets | ₱4,379,735 |
| Total liabilities | – |
| Total equity | 4,379,735 |
| Proportion of the Parent Company's ownership | 21.78% |
| Share in net assets of the associate | 953,906 |
| Cumulative translation adjustment | 1,646,528 |
| Goodwill | 28,802,639 |
| Carrying amount of the investment | ₱31,403,073 |
| | |
| Total revenue | ₱12,790,648 |
| Total expenses | 31,647,558 |
| Net loss | (18,856,910) |
| Less: Intercompany gross profit | 3,451,698 |
| Loss for equity pick-up | 15,405,212 |
| Group's share of loss for the year | ₱3,355,255 |

*The conversion rate used was closing rate and weighted average rate of ₱47.06 to USD1 and ₱47.12, respectively as of December 31, 2015*

*MatchMe Pte. Ltd.*

| | 2015 |
|---|---|
| Total assets | ₱67,007,341 |
| Total liabilities | 17,526,541 |
| Total equity | 49,480,800 |
| Proportion of the Parent Company's ownership | 31.52% |
| Share in net assets of the associate | 15,596,348 |
| Cumulative translation adjustment | 4,290,674 |
| Goodwill | 40,581,542 |
| Carrying amount of the investment | ₱60,468,564 |
| | |
| Total revenue | ₱– |
| Total expenses | 17,202,125 |
| Net loss | (17,202,125) |
| Group's share of loss for the year | ₱5,422,110 |

*The conversion rate used was closing rate and weighted average rate of ₱47.06 to USD1 and ₱47.12, respectively as of December 31, 2015*

*PT Sembilan Digital Investama*

| | 2015 |
|---|---|
| Total assets | ₱6,495,850 |
| Total liabilities | 7,177,185 |
| Total equity | (681,335) |
| Proportion of the Group's ownership | 49.00% |
| Share in net assets of the associate | (338,854) |
| Cumulative translation adjustment | 547,214 |
| Goodwill | 10,620,343 |
| Carrying amount of the investment | ₱10,828,703 |
| | |
| Total revenue | ₱20,350,639 |
| Total expenses | 21,783,008 |
| Net loss | (1,432,369) |
| Group's share of loss for the year | ₱701,861 |

*The conversion rate used was closing rate and weighted average rate of ₱47.06 to USD1 and ₱47.12, respectively as of December 31, 2015*

10. **Investments in Subsidiaries**

The Parent Company's investment in subsidiaries are accounted for under the cost method of accounting. The related percentages of ownership are shown below:

| | Percentages of Ownership | | Carrying Amounts | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Fluxion Inc. | **65.00%** | 65.00% | **₱3,851,571** | ₱3,851,571 |
| Storm Flex Systems Inc. | **51.52** | – | **192,721,305** | – |
| Seer Technologies Inc. | **70.00** | – | **18,000,000** | – |
| Xeleb Inc. | **67.00** | – | **3,349,996** | – |
| Yondu Inc. | **51.00** | – | **838,638,807** | – |
| | | | **₱1,056,561,679** | ₱3,851,571 |

Investment in Fluxion Inc. ("Fluxion")
Investment in Fluxion represents 65% ownership carried at cost amounting to ₱3.85 million as at December 31, 2015 and 2014. Fluxion is incorporated and domiciled in the Philippines, which is engaged in mobile and internet systems design and programming languages, usability and social media.

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

In 2015 and 2014, dividend income received from Fluxion amounted to ₱16.25 million and ₱8.67 million, respectively.

Investment in Storm Flex Systems Inc. ("Storm")
On February 26, 2015, the Parent Company and Storm, a human resource consultancy firm, signed a deal that will give the Parent Company 37,565 common shares or a 51.06% stake in Storm and other rights through primary and secondary issuances, for a total consideration of US$4.30 million or ₱190.89 million.

On December 28, 2015, a stockholder of Storm, assigned 342 shares to the Parent Company for a total consideration of ₱1.83 million.

Storm's registered office address and principal place of business is 602 Centerpoint Building, Julia Vargas St. Corner Garnet Road, Ortigas Center, Pasig City.

Investment in Seer Technologies Inc. ("Seer")
On June 25, 2015, the Company acquired 70,000 common shares representing 70% stake holdings in Seer, a leading software consultancy and design company, at a price of ₱18.00 million and an earn out amount corresponding to a fixed percentage of Seer's net income after tax for the years 2015 to 2017.

Seer's registered office address and principal place of business is Unit 806 Ecotower Bldg. 32nd Avenue Corner 9th Street Bonifacio Global City, Taguig City.

Investment in Xeleb Inc. ("Xeleb")
On July 14, 2015, the Parent Company has launched Xeleb, a new mobile games company. Xeleb develops games based on its celebrity shareholders' distinct brands. It is 67% - owned by the Parent Company and the rest by its celebrity shareholders.

Xeleb's registered office address and principal place of business is 7th Floor Cambridge Centre, 108 Tordesillas St., Salcedo Village, Makati City

Investment in Yondu Inc. ("Yondu")
On September 16, 2015, the Parent Company acquired 22,950 shares of common stock in Yondu, a content developer and provider of mobile value-added services and information technology services for a total consideration of ₱900.00 million. Five thousand (5,000) shares out of the 22,950 shares were from unissued shares of Yondu while 17,950 shares were purchased from GTI. Purchase price of unissued shares and shares previously held by GTI amounted to ₱230.00 million and ₱670.00 million, respectively. The purchase resulted to a 51% ownership by the Parent Company in Yondu.

Included in the Shareholders' Agreement are a call and put option granting the Parent Company the right to require GTI to sell and granting GTI the right to require the Parent Company to purchase all, but not part only, of the 49% shareholding of GTI in Yondu at ₱39,215.69 per company share, respectively. The options will be effective starting September 16, 2016 and will expire after two years, therefrom. The put option and call option shall be exercised by a share swap of Xurpas shares for shares held by GTI or a combination of share swap and cash, at the mutual agreement of both parties.

The embedded call and put options have been separated and are carried at fair value through profit or loss. At acquisition date, the fair value of the derivative asset and the derivative liability amounted to ₱247.10 million and ₱185.74 million, respectively. These were included in the determination of the investment cost for Yondu. The derivatives were subsequently revalued to reflect their fair values as at reporting date which resulted to a gain on remeasurement of the derivatives amounting to ₱0.74 million which was recognized in the parent company statement of comprehensive income for the year ended December 31, 2015. The carrying values of the call and put options at December 31, 2015 amounted to ₱236.99 million and a derivative liability amounting to ₱178.94 million, respectively.

Yondu's registered office address and principal place of business is 7th Floor Panorama Building, 34th Street corner Lane A, Bonifacio Global City, Taguig City.

## 11. **Property and Equipment**

Rollforward of this account follows:

**2015**

| | IT Equipment | Leasehold Improvements | Office Equipment | Furniture and Fixtures | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at beginning of year | **₱2,750,028** | **₱4,356,039** | **₱1,097,502** | **₱991,456** | **₱9,195,025** |
| Additions | **1,823,806** | **1,555,506** | **192,490** | **672,408** | **4,244,210** |
| Balance at end of year | **4,573,834** | **5,911,545** | **1,289,992** | **1,663,864** | **13,439,235** |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | **1,295,767** | **318,152** | **276,132** | **781,131** | **2,671,182** |
| Depreciation and amortization (Note 15) | **722,634** | **1,797,916** | **287,403** | **248,587** | **3,056,540** |
| Balance at end of year | **2,018,401** | **2,116,068** | **563,535** | **1,029,718** | **5,727,722** |
| **Net Book Value** | **₱2,555,433** | **₱3,795,477** | **₱726,457** | **₱634,146** | **₱7,711,513** |

2014

| | IT Equipment | Leasehold Improvements | Office Equipment | Furniture and Fixtures | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at beginning of year | ₱1,564,601 | ₱397,641 | ₱353,940 | ₱972,737 | ₱3,288,919 |
| Additions | 1,185,427 | 4,356,039 | 743,562 | 18,719 | 6,303,747 |
| Retirement | – | (397,641) | – | – | (397,641) |
| Balance at end of year | 2,750,028 | 4,356,039 | 1,097,502 | 991,456 | 9,195,025 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | 930,017 | 281,188 | 145,783 | 620,059 | 1,977,047 |
| Depreciation and amortization (Note 15) | 365,750 | 434,605 | 130,349 | 161,072 | 1,091,776 |
| Retirement | – | (397,641) | – | – | (397,641) |
| Balance at end of year | 1,295,767 | 318,152 | 276,132 | 781,131 | 2,671,182 |
| Net Book Value | ₱1,454,261 | ₱4,037,887 | ₱821,370 | ₱210,325 | ₱6,523,843 |

Depreciation and amortization for the years ended December 31, 2015 and 2014 charged as general and administrative expense amounted to ₱3.06 million and ₱1.09 million, respectively.

The Parent Company retired fully depreciated property and equipment no longer in use amounting to ₱0.40 million in 2014.

The Parent Company's fully depreciated property and equipment with aggregate cost of ₱0.22 million and ₱0.45 million are still in use as at December 31, 2015 and 2014, respectively.

## 12. Accounts and Other Payables

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Payable to related parties (Note 17) | **₱60,121,738** | ₱15,240,576 |
| Trade payables | **13,860,334** | 10,566,049 |
| Deferred output VAT | **10,989,386** | 10,056,886 |
| Taxes payable | **5,122,979** | 56,953,969 |
| Accrued expenses | **1,358,198** | 1,317,512 |
| Others | **2,005,040** | 75,460 |
| | **₱93,457,675** | ₱94,210,452 |

Trade payables represent the unpaid subcontracted services and other cost of services to third parties. These are noninterest-bearing and are normally settled within one year.

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

Taxes payable include output VAT after application of available input VAT and expanded withholding tax on payment to suppliers and employees' compensation which are settled within one year. In 2014, taxes payable include percentage tax imposed on proceeds from initial public offering (IPO) amounting to ₱54.63 million.

Accrued expenses mainly consist of 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.

## 13. Service Income

Service income, amounting to ₱491.98 million and ₱309.37 million for the periods ended December 31, 2015 and 2014, respectively, pertains mainly to revenues earned from mobile consumer products and services rendered by the Parent Company to its major customer, GTI and other telecommunication companies.

The Parent Company's revenue from GTI amounted to ₱472.02 million and ₱295.86 million in 2015 and 2014, respectively, which comprise approximately 96% of the total service income of the Parent Company for both years.

## 14. **Cost of Services**

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Salaries, wages and employee benefits | **₱45,142,572** | ₱25,715,614 |
| Outsourced services (Note 17) | **31,777,477** | 34,943,288 |
| Segment fee and network costs | **23,456,162** | 16,586,175 |
| Web hosting | **11,845,093** | 6,575,469 |
| Rent (Note 16) | **2,637,387** | 2,232,324 |
| Prizes and winnings | **1,561,438** | 1,992,172 |
| Commission | **1,250,000** | 666,667 |
| Utilities | **1,163,703** | 2,625,069 |
| Others | **5,653,081** | 338,017 |
| | **₱124,486,913** | ₱91,674,795 |

## 15. **General and Administrative Expenses**

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Salaries, wages and employee benefits | **₱24,698,096** | ₱8,172,379 |
| Professional fees | **12,519,828** | 7,373,040 |
| Advertising and promotions | **4,749,066** | 3,075,962 |
| Foreign exchange losses | **4,249,214** | 237 |
| Outsourced services | **3,632,793** | 584,071 |
| Entertainment, amusement and recreation | **3,262,974** | 2,091,311 |
| Depreciation and amortization (Note 11) | **3,056,540** | 1,091,776 |
| Transportation and travel | **3,049,836** | 791,973 |
| Taxes and licenses | **1,457,162** | 1,254,967 |
| Provision for impairment losses (Note 5) | **789,015** | 1,828 |
| Office supplies | **756,773** | 510,976 |
| Dues and subscription | **618,091** | 514,739 |
| Directors' fees | **617,500** | – |
| Seminars and trainings | **494,927** | 395,011 |
| Rent (Note 16) | **317,682** | 248,036 |
| Communication | **264,080** | 111,948 |
| Utilities | **88,730** | 72,841 |
| Repairs and maintenance | **33,987** | 33,837 |
| Miscellaneous | **1,465,240** | 1,280,614 |
| | **₱66,121,534** | ₱27,605,546 |

## 16. **Operating Lease Commitments**

The Parent Company entered into various lease agreements with third parties 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. In 2012, the Parent Company executed a noncancellable lease contract with Trends and Technologies Holdings, Inc. for a period of two (2) years commencing on May 1, 2012 and expiring on April 30, 2014. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.10 million and a corresponding increase of 5% on the second year of the lease. The Parent Company renewed this contract for a period of four (4) months commencing on May 1, 2014 and expiring on August 31, 2014. The lease ended on August 31, 2014.

b. The Parent Company entered into a noncancellable lease contract with Gervel, Inc. for office space for a period of three (3) years commencing on April 1, 2014 and expiring on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.20 million and a corresponding increase of 5% on the third year of the lease.

Total rent expense charged under "Cost of services" and "General and administrative expenses" in the Parent Company statements of comprehensive income amounted to ₱2.96 million and ₱2.48 million for the years ended December 31, 2015 and 2014, respectively (see Notes 14 and 15).

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

| | **2015** | 2014 |
|---|---:|---:|
| Within one year | **₱2,524,860** | ₱2,433,600 |
| After one year but not more than 5 years | **638,820** | 3,042,000 |
| | **₱3,163,680** | ₱5,475,600 |

## 17. Related Party Transactions

The Parent Company, in the regular conduct of business, has entered in 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 one party is an associate or a joint venture of the other party.

*Terms and conditions of transactions with related parties*
There have been no guarantees provided or received for any related party receivables and payables. Except as otherwise indicated, these accounts are noninterest-bearing, generally unsecured and 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 the related party operates.

Details of transactions with related parties and their outstanding balances as at December 31, 2015 and 2014 follow:

| | Terms | Conditions | Amount/Volume 2015 | Amount/Volume 2014 | Outstanding Balance 2015 Receivables | Outstanding Balance 2015 Payables | Outstanding Balance 2014 Receivables | Outstanding Balance 2014 Payables |
|---|---|---|---|---|---|---|---|---|
| **Subsidiaries** | | | | | | | | |
| Investment | Noninterest-bearing | Unsecured, no impairment | **₱190,889,553** | ₱– | **₱–** | **₱60,121,738** | ₱– | ₱– |
| Dividend income | Noninterest-bearing | Unsecured, no impairment | **16,250,000** | 8,666,667 | **–** | **–** | – | – |
| Outsourced services | Noninterest-bearing | Unsecured, no impairment | **7,808,187** | – | **–** | **3,654,260** | – | – |
| Advances | Interest-bearing | Unsecured, no impairment | **74,696,597** | – | **74,696,597** | **–** | – | – |
| Interest | Interest-bearing | Unsecured, no impairment | **495,462** | | **495,462** | | | |
| | | | **290,139,799** | 8,666,667 | **75,192,059** | **63,775,998** | – | – |
| **Affiliates** | | | | | | | | |
| Cost of services | Noninterest-bearing | Unsecured, no impairment | **9,622,782** | 27,732,429 | **–** | **1,809,459** | – | – |
| Advances | Interest-bearing | Unsecured, no impairment | **–** | – | **–** | **–** | 308,831 | – |
| | | | **9,622,782** | 27,732,429 | **–** | **1,809,459** | 308,831 | – |
| **Stockholder** | | | | | | | | |
| Advances | Noninterest-bearing | Unsecured, no impairment | **–** | 15,240,576 | **–** | **–** | – | 15,240,576 |
| | | | **–** | 15,240,576 | **–** | **–** | – | 15,240,576 |
| | | | **₱299,762,581** | ₱51,639,672 | **₱75,192,059** | **₱65,585,457** | ₱308,831 | ₱15,240,576 |

The significant transactions with related parties follow:

Subsidiaries:

a. On February 26, 2015, Storm issued 19,900 shares to the Parent Company for a total consideration of US$2.28 million. As at December 31, 2015, the Parent Company has an outstanding payable to Storm amounting to US$1.28 million or ₱60.12 million.

b. During 2015 and 2014, the Parent Company received cash dividends from Fluxion amounting to ₱16.25 million and ₱8.67 million, respectively.

c. In August 2015, the Parent Company availed various mobile content development services from Xeleb. Total outsourced services recognized by the Parent Company under "Cost of Services" amounted to ₱7.15 million. As of December 31, 2015, the Parent Company has an outstanding payable to Xeleb amounting to ₱2.92 million presented under "Trade payables".

d. In December 2015, the Parent Company availed website hosting and maintenance services from Seer. Total outsourced services recognized by the Parent Company under "Cost of Services" and "General and Administrative Expense" amounted to ₱0.66 million. As of December 31, 2015, the Parent Company has an outstanding payable to Seer amounting to ₱3.65 million.

e. Advances to subsidiaries include payments to and in behalf of Xeleb for its operational expenditures. Total advances to Xeleb amounted to ₱40.20 million as at December 31, 2015.

f. Advances to subsidiaries also include to short-term, interest-bearing loans to Storm and Seer amounting to ₱30.00 million and ₱4.50 million, respectively. These are subject to interest rate of 3.75% for a 30-day term. Interest income earned and related interest receivable as of December 31, 2015 from the said advances amounted to ₱0.50 million.

Affiliates:

a. In 2014, the Parent Company gained an exclusive right to distribute one of Altitude Games Singapore's game, Run Run Super V. In return, the Parent Company shall pay Altitude Games Singapore a certain percentage of the revenues generated from such applications.

   For the year ended December 31, 2015, the Parent Company recognized "Outsourced Services" under "Cost of Services" amounting to ₱9.62 million in relation to the aforementioned transaction. As at December 31, 2015, payable to Altitude Singapore amounted to ₱1.81 million.

b. On January 1, 2011, the Parent Company entered into a service agreement with Digital Storm, Inc. (DSI), wherein the latter will render services in favor of the Parent Company. The services include promotion of mobile applications jointly developed with the Parent Company and assistance in the deployment such applications in the Parent Company's programs and events. In return, the Parent Company shall pay DSI a certain percentage of the revenues generated from such applications recognized as "Outsourced Services" under "Cost of Services" amounting to ₱27.73 million for the year ended December 31, 2015

c. Advances to affiliates pertain to advances for operating expenditures amounting to nil and ₱0.31 million as at December 31, 2015 and 2014, respectively.

Stockholder:

a. On December 11, 2014, the Parent Company acquired on account 11.36 million ordinary shares from Mr. Nico Jose S. Nolledo, a stockholder, comprising 10.02% ownership in Altitude Games amounting to ₱15.24 million.

*Key management compensation*
Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱32.32 million and ₱8.96 million in 2015 and 2014, respectively.

## 18. **Income Tax**

Provision for income tax consists of the following:

| | **2015** | 2014 |
|---|---|---|
| Current | **₱96,531,998** | ₱36,667,248 |
| Deferred | **(3,750,187)** | 965,834 |
| Final | **1,791,936** | 206,883 |
| | **₱94,573,747** | ₱37,839,965 |

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

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets arising from: | | |
| Actuarial loss on pension liabilities | **₱3,743,546** | ₱3,518,507 |
| Pension expense | **1,267,309** | 890,011 |
| Accrued expenses | **2,966,908** | 687,952 |
| Unrealized foreign currency exchange loss | **561,026** | 71 |
| Unrealized loss on derivative asset | **3,031,429** | − |
| Provision for impairment loss | **144,055** | − |
| | **11,714,273** | 5,096,541 |
| Deferred tax liability arising from: | | |
| Unrealized gain on financial assets at FVPL | **(95,360)** | (129,318) |
| Unrealized gain on derivative liability | **(3,252,314)** | − |
| | **(3,347,674)** | (129,318) |
| Net deferred tax asset | **₱8,366,599** | ₱4,967,223 |

The reconciliation between the provision for income tax computed at statutory and the effective income tax rate follow:

| | 2015 | 2014 |
|---|---|---|
| Statutory income tax | **₱97,710,881** | ₱63,754,493 |
| Tax effects of: | | |
| Equity in net loss of associates | **2,843,768** | − |
| Income subject to ITH | **−** | (23,184,061) |
| Nontaxable dividend income | **(4,875,000)** | (2,600,000) |
| Interest income already subjected to final tax | **(1,111,448)** | (130,467) |
| Nondeductible expense | **5,546** | − |
| Effective income tax | **₱94,573,747** | ₱37,839,965 |

Registration with the Board of Investments (BOI)
On July 27, 2011 the Parent Company registered with the BOI as expanding IT service firm in the field of software development on a non-pioneer status with Certificate Registration No. 2011-147 which, incorporates the agreed terms and conditions of the Parent Company's registration, including all the fiscal and non-fiscal incentives available to the registered project as follows:

a) ITH for the period of three years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

b) Only income generated from the registered activity shall be entitled to ITH incentives. In the computation of ITH, a base figure of ₱81.41 million shall be used, which is equivalent to the enterprise's highest attained sales for three years prior to application for expansion.

The Parent Company's ITH incentive expired in July 2014.

The Parent Company availed of its ITH incentive granted by the BOI which amounted to nil and ₱23.18 million in 2015 and 2014, respectively.

## 19. **Pension Liability**

The Parent 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 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 (included in salaries and employee benefits under "General and administrative expenses") in the statements of comprehensive income are as follows:

| | **2015** | 2014 |
|---|---|---|
| Current service cost | **₱2,521,762** | ₱412,465 |
| Interest cost on benefit obligation | **655,400** | 150,885 |
| | **₱3,177,162** | ₱563,350 |

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

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **₱14,695,061** | ₱2,364,966 |
| Current service cost | **2,521,762** | 412,465 |
| Interest cost on benefit obligation | **655,400** | 150,885 |
| Net actuarial (gains) losses | **(1,169,372)** | 11,766,745 |
| Balance at end of year | **₱16,702,851** | ₱14,695,061 |

Actuarial (gain) loss on defined benefit pension plan is as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **₱8,209,851** | (₱26,871) |
| Actuarial (gains) losses | **(1,169,372)** | 11,766,745 |
| Tax effect relating to actuarial gains (loss) | **350,812** | (3,530,023) |
| Balance at end of year | **₱7,391,291** | ₱8,209,851 |

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

| | **2015** | 2014 |
|---|---|---|
| Discount rate | **4.86%** | 4.46% |
| Salary projection rate | **5.00%** | 5.00% |

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

| | | Effect on DBO | |
|---|---|---|---|
| | | **2015** | 2014 |
| Discount rate | (+) 1.0% | **(₱2,906,270)** | (₱2,690,208) |
| | (−) 1.0% | **3,615,045** | 3,371,566 |
| Salary increase rate | (+) 1.0% | **3,380,495** | 3,146,951 |
| | (−) 1.0% | **(2,795,335)** | (2,585,488) |

The weighted average duration of defined benefit obligation at the end of the reporting period is 21.8 years.

The Parent Company has no expected contribution for the retirement fund for next year.

20. **Equity**

The details of the number of shares as at December 31, 2015 and 2014 follow:

| | **2015** | 2014 |
|---|---|---|
| Authorized - common shares (₱0.10 par value in 2014; ₱1.00 par value in 2013) | **5,000,000,000** | 5,000,000,000 |
| Issued and outstanding | | |
| Balance at beginning of period | **1,720,000,660** | 3,250,000 |
| Issuance of new shares through: | | |
| Stock dividends | – | 122,500,000 |
| Cash subscription | – | 11,850,066 |
| Effect of 10-to-1 share split | – | 1,238,400,594 |
| | **1,720,000,660** | 1,376,000,660 |
| Issuance through IPO | – | 344,000,000 |
| Balance at end of period | **1,720,000,660** | 1,720,000,660 |

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

| | | | | **2015** | 2014 |
|---|---|---|---|---|---|
| | Number of shares registered | Issue/offer price | Date of approval | Number of holders of securities as of December 31 | Number of holders of securities as of December 31 |
| Common shares | 5,000,000 | ₱0.10 par value<br>₱3.97 issue price | December 2, 2014 | 15 | 15 |

Capital Stock and Additional Paid-in Capital (APIC)
On May 2, 2014, the Parent Company's BOD approved the subscription and issuance of 6.75 million shares with par value of ₱1.00 per share from the unissued portion of its ₱10.00 million authorized capital stock.

On May 5, 2014, the Parent Company's BOD approved the following transactions which were subsequently approved by the SEC on June 25, 2014:

- Increase in authorized capital stock from ₱10.00 million divided into 10.00 million common shares with par value of ₱1.00 per share to ₱255.00 million divided into 255.00 million common shares with par value of ₱1.00 per share.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱10.00 million to ₱255.00 million.
- Subscription of 61.25 million common shares with par value of ₱1.00 per share, which is paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

On July 10, 2014, the Parent Company's BOD approved the following transactions which were subsequently approved by the SEC on September 2, 2014:

- Increase in authorized capital stock from ₱255.00 million divided into 255.00 million common shares at the par value of ₱1.00 each to ₱500.00 million divided into 500.00 million common shares at the par value of ₱1.00 each.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱255.00 million to ₱500.00 million.
- Subscription of 61.25 million common shares with par value of ₱1.00 per share, which is paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

In addition, the Parent Company issued the subscribed 61.25 million common shares with par value of ₱1.00 per share and another 5.10 million common shares with par value of ₱1.00 per share to certain executives and employees through cash payments.

On September 3, 2014, the Parent Company's BOD approved decrease in the par value of the capital stock from ₱1.00 per share to ₱0.10 per share. Accordingly, the Parent Company applied for the Amendments Articles of Incorporation to decrease the par value of the capital stock. Thus, the Parent Company cancelled all the previously issued stock certificates and reissue new stock certificates to all stockholders effecting the 10-to-1 stock split.

*Initial Public Offering*
On November 12, 2014, PSE has approved the 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.68 million) for the IPO of the Parent Company.

On November 13, 2014, the SEC granted the Parent Company permit to sell or offer its securities which consist of 1,720.00 million common shares.

The Parent Company was publicly listed on December 2, 2014.

As at December 31, 2014, ₱172.00 million of the ₱500.00 million authorized capital stocks has been subscribed and issued, ₱122.55 million of which was issued through stock dividend declaration and the rest was paid in cash. The excess of subscription price over paid-up capital was recognized as APIC. The Parent Company incurred transaction costs incidental to the IPO amounting to ₱111.56 million and ₱7.35 million which were charged to "Additional paid-in capital" in the statement of financial position and "General and administrative expense" in the statement of comprehensive income, respectively.

Retained Earnings

*Appropriations*

On May 5, 2014, the Parent Company's BOD approved the reversal of ₱91.50 million appropriations to unappropriated retained earnings to accommodate the stock and cash dividend declaration.

On June 25, 2014, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for stock and cash dividend declaration amounting to ₱61.25 million and ₱36.00 million, respectively.

On August 20, 2014, the Parent Company's BOD approved the reversal of ₱97.00 million appropriations to unappropriated retained earnings to accommodate the stock and cash dividend declaration.

On December 29, 2015, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱65.82 million.

*Dividends declaration*

Information on the Parent Company's declaration of dividends follow:

| | Per Share | Amount | Date Record | Date Payable |
|---|---|---|---|---|
| **Parent Company** | | | | |
| Cash dividend declared on: | | | | |
| April 29, 2015 | ₱0.04 | ₱68,800,026 | May 14, 2015 | June 2, 2015 |
| September 20,2014 | 0.56 | 36,000,000 | Jun 30, 2014 | Sept. 30, 2014 |
| June 5, 2014 | 0.47 | 30,250,000 | Dec. 31, 2013 | Jun. 30, 2014 |
| Stock dividend declared on: | | | | |
| July 10, 2014 | 0.95 shares | 61,250,000 | Sept. 20, 2014 | Sept. 20, 2014 |
| May 5, 2014 | 18.85 shares | 61,250,000 | May 5, 2014 | May 5, 2014 |

Capital Management

The primary objective of the Parent 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 Parent 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 Parent Company may adjust the dividend payment to shareholders or issue new shares.

The Parent Company's sources of capital follow:

| | **2015** | 2014 |
|---|---|---|
| Capital stock | **₱172,000,066** | ₱172,000,066 |
| Additional paid-in capital | **1,219,718,163** | 1,219,718,163 |
| Retained earnings | **240,740,006** | 78,944,703 |
| | **₱1,632,458,235** | ₱1,470,662,932 |

The Parent Company is not subject to externally-imposed capital requirements. The Parent Company regards its equity as its primary source of capital. No changes were made in the capital management policies as at December 31, 2015 and 2014.

## 21. **Financial Instruments**

Fair Value
The methods and assumptions used by the Parent Company in estimating fair value of the financial instruments are as follows:

Cash and cash equivalents, accounts receivables and accounts and other payables (excluding "Taxes payable", "Deferred output VAT" and statutory payables included as "Others") - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.

Financial assets at FVPL - Investment in UITF - These pertain to investment in UITF. Fair value of investment in UITF is based on NAV as at reporting dates.

Derivative asset and derivative liability – These pertain to embedded call and put options recognized separately from its host contract. Fair values were valued using the binomial option model.

AFS quoted equity security - Fair value is based on quoted prices published in the market and debt securities.

AFS unquoted equity security and AFS unquoted debt investments - For unquoted equity and debt investments with recent sales at arm's length transaction, fair values were determined using prices in such transactions.

Fair Value Hierarchy
The Parent Company uses the following three-level hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

AFS - quoted equity securities amounting to ₱0.24 million and ₱0.23 million as at December 31, 2015 and 2014, respectively, were classified under Level 1 category.

Financial assets at FVPL, AFS unquoted equity and debt instruments and financial liabilities at FVPL - The fair value measurements are categorized under Level 2 of fair value hierarchy.

Carrying amounts of these assets are set out below:

| | **2015** | 2014 |
|---|---|---|
| Financial assets at fair value through profit or loss | **₱80,317,867** | ₱500,431,059 |
| Derivative asset | **236,991,938** | – |
| AFS unquoted equity investments | **44,244,956** | – |
| AFS unquoted debt investments | **41,132,123** | 3,602,123 |
| Derivative liability | **174,894,463** | – |
| | **₱577,581,347** | ₱504,033,182 |

There have been no reclassifications from Level 1 to Level 2 or 3 categories for the years ended December 31, 2015 and 2014.

Financial Risk Management and Objectives and Policies
The Parent Company's financial instruments comprise cash and cash equivalents, accounts receivable, financial assets at FVPL, AFS financial assets and accounts and other payables (excluding taxes payable, deferred output VAT and statutory payables) , which arise directly from operations. The main purpose of these financial instruments is to finance the Parent 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 Parent Company's business activities. The main objectives of the Parent 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 Parent 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 Parent Company by failing to discharge an obligation.

The Parent Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable, financial assets at FVPL and AFS financial assets. To manage credit risk, the Parent Company monitors its exposure to credit risk on a continuous basis.

The Parent Company entered into an agreement with GTI, wherein the former will provide mobile content services and mobile application development services to the latter in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile content services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI's mobile phone subscribers. Mobile application development, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI's mobile content products.
As disclosed in Note 5, the Parent Company has concentration of credit risk with its receivable from GTI, its largest customer, representing 91% and 93% of its total trade receivables as at December 31, 2015 and 2014, respectively. Recent economic condition and market segment of GTI shows its continuing growth and success.

The tables below show the gross maximum exposure to credit risk of the Parent Company.

**December 31, 2015**

| | Carrying Amount | Fair Value of Credit Enhancement | Financial Effect of Credit Enhancement | Maximum Exposure to Credit Risk |
|---|---|---|---|---|
| Cash in bank | **₱146,499,507** | **₱1,000,000** | **₱1,000,000** | **₱145,499,507** |
| Accounts receivables: | | | | |
| Trade receivable | **102,304,348** | – | – | **102,304,348** |
| (Forward) | | | | |

| | Carrying Amount | Fair Value of Credit Enhancement | Financial Effect of Credit Enhancement | Maximum Exposure to Credit Risk |
|---|---|---|---|---|
| Receivable from related parties | **74,696,597** | – | – | **74,696,597** |
| Interest receivable | **554,918** | – | – | **554,918** |
| Advances to employees | **176,903** | – | – | **176,903** |
| Others | **1,788,515** | – | – | **1,788,515** |
| Financial assets at FVPL | **80,317,867** | – | – | **80,317,867** |
| AFS financial assets | **85,617,079** | – | – | **85,617,079** |
| Total | **₱491,955,734** | **₱1,000,000** | **₱1,000,000** | **₱490,955,734** |

December 31, 2014

| | Carrying Amount | Fair Value of Credit Enhancement | Financial Effect of Credit Enhancement | Maximum Exposure to Credit Risk |
|---|---|---|---|---|
| Cash in bank | ₱433,061,163 | ₱1,500,000 | ₱1,500,000 | ₱431,561,163 |
| Cash equivalents | 500,000,000 | – | – | 500,000,000 |
| Accounts receivables: | | | | |
| Trade receivable | 94,209,345 | – | – | 94,209,345 |
| Receivable from related parties | 308,831 | – | – | 308,831 |
| Interest receivable | 504,110 | | | 504,110 |
| Advances to employees | 417,657 | – | – | 417,657 |
| Other receivables | 26,892 | – | – | 26,892 |
| Financial assets at FVPL | 500,431,059 | – | – | 500,431,059 |
| AFS financial assets | 3,827,123 | – | – | 3,827,123 |
| Total | ₱1,532,786,180 | ₱1,500,000 | ₱1,500,000 | ₱1,531,286,180 |

The credit enhancement on cash in bank pertains to the insured deposit covered by Philippine Deposit Insurance Corporation which shall not exceed ₱500,000 to any bona fide depositor for legitimate deposits in an insured bank net of any obligation of the depositor to the insured bank as of the date of closure.

The aging analysis of accounts receivables presented per class follows:

**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 receivable | **₱50,426,258** | **₱47,060,270** | **₱1,470,581** | **₱2,867,055** | **₱480,184** | **₱102,304,348** |
| Receivable from related parties | **6,637,364** | **12,191,083** | **11,227,317** | **44,640,833** | **–** | **74,696,597** |
| Interest receivable | **–** | **–** | **–** | **554,918** | **–** | **554,918** |
| Advances to employees | **–** | **–** | **–** | **176,903** | **–** | **176,903** |
| Other receivables | **91,782** | **–** | **–** | **1,696,733** | **–** | **1,788,515** |
| | **₱57,155,404** | **₱59,251,353** | **₱12,697,898** | **₱49,936,442** | **₱480,184** | **₱179,521,281** |

December 31, 2014

| | Neither Past Due nor Impaired | Past Due But Not Impaired | | | Impaired Financial Assets | Total |
|---|---|---|---|---|---|---|
| | | <30 days | 30 to <90 days | 90 days | | |
| Trade receivable | ₱57,459,400 | ₱31,292,982 | ₱216,871 | ₱5,240,092 | ₱– | ₱94,209,345 |
| Receivable from related parties | – | – | – | 308,831 | – | 308,831 |
| Interest receivable | – | – | – | 504,110 | – | 504,110 |
| Advances to employees | 417,657 | – | – | – | – | 417,657 |
| Other receivables | 26,892 | – | – | – | – | 26,892 |
| | ₱57,903,949 | ₱31,292,982 | ₱216,871 | ₱6,053,033 | ₱– | ₱95,466,835 |

The tables show the credit quality by class of the Parent Company's financial assets as at December 31, 2015 and 2014.

**2015**

| | **Neither Past Due nor Impaired** | | | **Past due but not Impaired** | **Impaired Financial Assets** | **Total** |
|---|---|---|---|---|---|---|
| | **High Grade** | **Medium Grade** | **Low Grade** | | | |
| Cash in banks | **₱146,499,507** | **₱–** | **₱–** | **₱–** | **₱–** | **₱146,499,507** |
| Accounts receivables: | | | | | | |
| Trade receivable | **50,426,258** | **–** | **–** | **51,397,906** | **480,184** | **102,304,348** |
| Receivable from related parties | **6,637,364** | **–** | **–** | **68,059,233** | **–** | **74,696,597** |
| Interest receivable | **–** | **–** | **–** | **554,918** | **–** | **554,918** |
| Advances to employees | **–** | **–** | **–** | **176,903** | **–** | **176,903** |
| Other receivables | **91,782** | **–** | **–** | **1,696,733** | **–** | **1,788,515** |
| Financial assets at FVPL | **80,317,867** | **–** | **–** | **–** | **–** | **80,317,867** |
| AFS financial assets | **85,617,079** | **–** | **–** | **–** | **–** | **85,617,079** |
| | **₱369,589,857** | **₱–** | **₱–** | **₱121,885,693** | **₱480,184** | **₱491,955,734** |

2014

| | Neither Past Due nor Impaired | | | Past due but not Impaired | Impaired Financial Assets | Total |
|---|---|---|---|---|---|---|
| | High Grade | Medium Grade | Low Grade | | | |
| Cash in banks and cash equivalents | ₱933,061,163 | ₱– | ₱– | ₱– | ₱– | ₱933,061,163 |
| Accounts receivables: | | | | | | |
| Receivable from related parties | – | – | – | 308,831 | – | 308,831 |
| Trade receivable | 57,459,400 | – | – | 36,749,945 | – | 94,209,345 |
| Advances to employees | 417,657 | – | – | – | – | 417,657 |
| Interest receivable | – | – | – | 504,110 | – | 504,110 |
| Other receivables | 26,892 | – | – | – | – | 26,892 |
| Financial assets at FVPL | 500,431,059 | – | – | – | – | 500,431,059 |
| AFS financial assets | 3,827,123 | – | – | – | – | 3,827,123 |
| | ₱1,495,223,294 | ₱– | ₱– | ₱37,562,886 | ₱– | ₱1,532,786,180 |

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

Cash in banks and cash equivalents, financial assets at FVPL and quoted AFS financial assets - based on the nature of the counterparty and the Parent Company's rating procedure. These are held by counterparty banks with minimal risk of bankruptcy and are therefore classified as high grade.

Accounts 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.

Unquoted AFS financial assets are unrated.

Liquidity Risk

Liquidity risk is the risk that the Parent Company will be unable to meet its obligations as they fall due. The Parent 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 Parent 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 Parent Company's financial assets and financial liabilities at December 31, 2015 and 2014 are based on contractual undiscounted payments.

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

## 22. Events After Reporting Date

*Subscription to Xurpas Enterprise*

On February 16, 2016, the Board of Directors of the Parent Company approved the subscription to 4,999,994 shares of stock or 99.99% shareholdings in Xurpas Enterprise Inc. ("Xurpas Enterprise").

Xurpas Enterprise is a wholly owned subsidiary of the Parent Company focused on providing mobile enterprise solutions to corporate clients.

*Investment in Micro Benefits Limited*

On March 9, 2016, the Parent Company acquired 718,333 new Series C Preferred Shares ("Subscription Shares") equivalent to a 23.53% stake in Micro Benefits Limited (Micro Benefits) for US$10.00 million or ₱468.60 million. Micro Benefits, a company registered in Hong Kong, is engaged in the business of providing employee benefits to Chinese workers through its operating company, Micro Benefits Financial Consulting (Suzhou) Co. Ltd, located in China.

## 23. Supplementary Information Required Under Revenue Regulations 15-2010

RR No. 15-2010 are promulgated to amend certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying tax returns. In addition to the disclosures mandated under PFRS, RR No. 15-2010 requires disclosures regarding information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company also reported and/or paid the following types of taxes for 2015:

Value-added tax

*Output VAT*
The Parent Company is a VAT-registered company with VAT output tax declaration of ₱58.11 million for 2015 based on the net receipts on taxable sales of services amounting to ₱484.24 million.

*Input VAT*
Details of the Parent Company's input VAT follow:

| | Amount |
|---|---|
| Balance at beginning of year | ₱967,149 |
| Current year's domestic purchases/payments for: | |
| Purchase of capital goods not exceeding ₱1 million | 262,841 |
| Domestic purchases of goods other than capital goods | 1,172,596 |
| Domestic purchase of services | 7,848,949 |
| | 10,251,535 |
| Claims for tax credit/refund and other adjustments | (10,251,535) |
| Balance at end of year | ₱– |

The Parent Company's taxable sale of services are based on actual collections received, hence, may not be the same as amounts accrued in the statements of comprehensive income.

Taxes and Licenses
This includes all other taxes, local and national, including licenses and permit fees lodged in statement of comprehensive income under the general and administrative expenses in the account "Taxes and licenses" for the year ended December 31, 2015.

Details consist of the following:

| | Amount |
|---|---|
| Municipal permit | ₱1,172,110 |
| Documentary stamp tax | 172,515 |
| Construction permits and clearances | 44,213 |
| Community tax certificate | 500 |
| BIR annual registration | 500 |
| Other taxes and licenses | 67,324 |
| | ₱1,457,162 |

Documentary stamp tax amounting to ₱172,000 was paid by the Parent Company during the year for the issuance of new shares during its IPO.

Withholding Taxes
Details of withholding taxes for 2015 are as follow:

| | Amount |
|---|---|
| Withholding taxes on compensation and benefits | ₱16,639,640 |
| Final withholding taxes | 7,199,752 |
| Expanded withholding taxes | 1,598,320 |
| | ₱25,437,712 |

Tax Contingencies
The Parent Company did not receive any final tax assessments in 2015, nor did it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of Bureau of Internal Revenue.

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Xurpas Inc. (the Parent Company) as at and for the years ended December 31, 2015 and 2014 and have issued our report thereon dated March 29, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of reconciliation of retained earnings available for dividend declaration is the responsibility of the Parent Company's management. This schedule is presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
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

March 29, 2016

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Xurpas Inc. (the Parent Company) as at and for the years ended December 31, 2015 and 2014 and have issued our report thereon dated March 29, 2016. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The schedules A and B listed in the Index to the Parent Company Financial Statements and Supplementary Schedules are the responsibility of the management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic parent company financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic parent company 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 parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
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

March 29, 2016

**XURPAS INC.**

## INDEX TO THE PARENT COMPANY FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

**FOR THE YEAR ENDED DECEMBER 31, 2015**

| Schedule | Contents |
|---|---|
| A | Reconciliation of Retained Earnings Available for Dividend Declaration |
| B | Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards |

## XURPAS INC.

## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

### FOR THE YEAR ENDED DECEMBER 31, 2015

| | Amount |
|---|---|
| Unappropriated Retained Earnings, beginning | ₱86,025,332 |
| Add: Net income during the period closed to retained earnings | 230,595,329 |
| Equity in net loss of associates | 9,479,226 |
| Less: | |
| Unrealized gain in financial asset at FVPL | (317,867) |
| Benefit from deferred income tax expense | (3,971,072) |
| Cash dividends declared | (68,800,026) |
| Appropriations for dividend declaration | (65,819,709) |
| Unappropriated Retained Earnings, end available for dividend distribution | ₱187,191,213 |

# XURPAS INC.

## LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS
### AS AT DECEMBER 31, 2015

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as at December 31, 2015** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>**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 | | | ✓ |
| **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<br>Effective as at December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal | **Not early adopted** | | |
| **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 | **Not early adopted** | | |
| | Amendments to PFRS 7: Amendments to PFRS 7: Servicing Contracts | **Not early adopted** | | |
| | Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | **Not early adopted** | | |
| **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 | ✓ | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | 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: Investment Entities | ✓ | | |
| | Amendment to PFRS 10: Investment Entities: Applying the Consolidation Exception | **Not early adopted** | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>**Effective as at December 31, 2015** | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 | | | ✓ |
| | Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | **Not early adopted** | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | **Not early adopted** | | |
| **IFRS 15** | Revenue from Contracts with Customers** | **Not early adopted** | | |
| **IFRS 16** | Leases** | **Not early adopted** | | |
| **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 | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **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 | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of servicing equipment | ✓ | | |

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as at December 31, 2015** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| | 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 | **Not early adopted** | | |
| | Amendments to PAS 16 and PAS 41: Bearer Plants | **Not early adopted** | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group plans and disclosures | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | ✓ | | |
| | Amendments to PAS 19: Regional Market Issue regarding Discount Rate | **Not early adopted** | | |
| **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** | 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 | **Not early adopted** | | |
| **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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **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 | ✓ | | |
| **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’ | **Not early adopted** | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization | | | ✓ |
| **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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 | **Not early adopted** | | |
| **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* | | | ✓ |
| **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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| 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*