

Cirtek Holdings Philippines Corporation

Parent Company Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Cirtek Holdings Philippines Corporation

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Cirtek Holdings Philippines Corporation, which comprise the parent company balance sheets as at December 31, 2015 and 2014, and the parent company statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 Standards, 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 parent company 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 parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company financial statements.

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



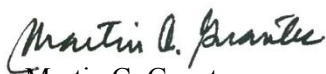
Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Cirtek Holdings Philippines Corporation 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 No. 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 No. 15-2010 in Note 17 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 Cirtek Holdings Philippines Corporation. 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.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5321643, January 4, 2016, Makati City

April 15, 2016



CIRTEK HOLDINGS PHILIPPINES CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	\$17,260,582	\$10,035,366
Financial asset at fair value through profit and loss (FVPL) (Note 5)	8,767,580	—
Amounts owed by related parties (Note 11)	44,692,827	39,181,732
Other current assets	157,786	8,597
Total Current Assets	70,878,775	49,225,695
Noncurrent Assets		
Investments in subsidiaries (Note 6)	5,981,499	5,981,499
Available-for-sale (AFS) financial asset (Note 7)	1,667,000	—
Property and equipment	84,696	—
Total Noncurrent Assets	7,733,195	5,981,499
TOTAL ASSETS	\$78,611,970	\$55,207,194
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses (Note 8)	\$133,451	\$80,675
Short-term loans (Note 9)	4,500,000	—
Current portion of long-term debts - net of deferred financing cost (Note 10)	3,433,849	967,861
Amounts owed to related parties (Note 11)	10,265,290	23,743,523
Total Current Liabilities	18,332,590	24,792,059
Noncurrent Liabilities		
Long-term debts - net of current portion and deferred financing cost (Note 10)	14,161,371	17,716,819
Total Liabilities	32,493,961	42,508,878
Equity (Note 14)		
Common stock	9,594,321	7,893,134
Preferred stock - net of subscription receivable	221,239	—
Additional paid-in capital	35,896,893	4,733,511
Retained earnings	405,556	71,671
Total Equity	46,118,009	12,698,316
TOTAL LIABILITIES AND EQUITY	\$78,611,970	\$55,207,194

See accompanying Notes to Parent Company Financial Statements



CIRTEK HOLDINGS PHILIPPINES CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
DIVIDEND INCOME	\$3,050,000	\$3,600,000
GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	340,802	145,736
FINANCIAL INCOME (EXPENSES)		
Interest expense (Notes 9 and 10)	(780,303)	(369,698)
Interest income (Notes 4 and 5)	343,193	818
	(437,110)	(368,880)
OTHER INCOME (CHARGES) - Net		
Mark-to-market gain (Note 5)	267,580	—
Foreign exchange gains (losses) - net	(52,906)	84,738
Input value-added tax (VAT) written off	(51,109)	—
Bank charges	(1,768)	(145)
	161,797	84,593
NET INCOME	2,433,885	3,169,977
OTHER COMPREHENSIVE INCOME	—	—
TOTAL COMPREHENSIVE INCOME	\$2,433,885	\$3,169,977

See accompanying Notes to Parent Company Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common stock					
	Issued	Undistributed Stock Dividends	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total
BALANCES AT DECEMBER 31, 2013	\$6,559,066	\$—	\$—	\$4,733,511	\$35,762	\$11,328,339
Total comprehensive income for the year	—	—	—	—	3,169,977	3,169,977
Cash dividends declared (Note 14)	—	—	—	—	(1,800,000)	(1,800,000)
Stock dividends declared (Note 14)	644,803	689,265	—	—	(1,334,068)	—
BALANCES AT DECEMBER 31, 2014	7,203,869	689,265	—	4,733,511	71,671	12,698,316
Issuance of additional capital stock (Note 14):						
Common stock	1,701,187	—	—	32,322,545	—	34,023,732
Preferred stock	—	—	221,239	—	—	221,239
Stock issue cost (Note 14)	—	—	—	(1,159,163)	—	(1,159,163)
Total comprehensive income for the year	—	—	—	—	2,433,885	2,433,885
Issuance of undistributed stock dividends (Note 14)	689,265	(689,265)	—	—	—	—
Cash dividends declared (Note 14)	—	—	—	—	(2,100,000)	(2,100,000)
BALANCES AT DECEMBER 31, 2015	\$9,594,321	\$—	\$221,239	\$35,896,893	\$405,556	\$46,118,009

See accompanying Notes to Parent Company Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$2,433,885	\$3,169,977
Adjustments for:		
Dividend income	(3,050,000)	(3,600,000)
Interest expense (Notes 9 and 10)	780,303	369,698
Interest income (Notes 4 and 5)	(343,193)	(818)
Unrealized mark-to-market gain (Note 5)	(267,580)	—
Unrealized foreign exchange loss (gain)	43,490	(12,776)
Operating loss before working capital changes	(403,095)	(73,919)
Decrease (increase) in:		
Amounts owed by related parties (Note 11)	(5,511,095)	(15,930,086)
Other current assets	8,449	(3,597)
Increase (decrease) in:		
Accrued expenses	26,305	(13,708)
Derivative liability	—	(61,254)
Cash used in operations	(5,879,436)	(16,082,564)
Dividends received	3,050,000	4,750,000
Interest received	185,407	818
Net cash used in operating activities	(2,644,029)	(11,331,746)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial asset at FVPL (Note 5)	(8,500,000)	—
AFS financial asset (Note 7)	(1,667,000)	—
Property and equipment	(84,696)	—
Proceeds from disposal of financial asset at FVPL	—	4,220,621
Cash from (used in) investing activities	(10,251,696)	4,220,621
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Stock issuance (Note 14)	34,244,971	—
Availment of short-term loans (Note 9)	4,500,000	—
Availment of long-term debt (Note 10)	—	10,000,000
Increase (decrease) in amounts owed to related parties (Note 11)	(15,578,233)	10,226,956
Payments of:		
Stock issue costs (Note 14)	(1,141,435)	—
Long-term debt (Note 10)	(1,000,000)	(1,000,000)
Interest (Note 8)	(698,894)	(334,944)
Debt issuance costs (Note 10)	(161,159)	—
Cash dividends (Note 14)	—	(1,800,000)
Net cash from financing activities	20,165,250	17,092,012
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(44,309)	12,776
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,225,216	9,993,663
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,035,366	41,703
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	\$17,260,582	\$10,035,366

See accompanying Notes to Parent Company Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Cirtek Holdings Philippines Corporation (CHPC or the Parent Company) was incorporated under the laws of the Republic of the Philippines on February 10, 2011 to invest in, purchase or acquire personal property of every kind, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities.

The Parent Company was listed in the Philippine Stock Exchange on November 18, 2011.

Prior to the listing, the Parent Company had undergone a corporate re-organization on March 1, 2011 which includes an acquisition from Cirtek Holdings, Inc. (CHI) of 155,511,952 common shares of Cirtek Electronics Corporation (CEC), and 50,000 shares of Cirtek Electronics International Corporation (CEIC), representing 100% of the outstanding capital stock of both companies. The above transaction was treated as a business combination of entities under common control and was accounted for similar to pooling-of-interests method. Camerton Inc. is the immediate parent of CHPC, while Carmetheus Holdings, Inc. is the ultimate parent company of the Group.

The Company has no employees as of December 31, 2015 and 2014. The accounting and administrative function of the Parent Company are handled by CEC.

Business Acquisition

On July 30, 2014, CEIC entered into a sale and purchase agreement with REMEC Broadband Wireless Holdings (“REMEC”), for the purchase of 100% shares of REMEC’s manufacturing division, REMEC Broadband Wireless International, Inc. (“RBWI”), a Philippine-based manufacturer of value added, highly integrated technology products. Based on the terms of the sale, REMEC and its remaining subsidiaries will continue to design and market its top-of-class telecommunications products globally under its “REMEC” brand, and, REMEC will enter into a manufacturing agreement with RBWI to manufacture REMEC’s products under a long-term contract manufacturing relationship. CEIC acquired RBWI for a consideration of \$7.5 million. CHPC funded the acquisition through a combination of available cash on hand and proceeds from a corporate notes issuance.

The closing date of the transactions was effective July 30, 2014.

Authorization and issuance of parent company financial statements

The parent company financial statements as at and for the years ended December 31, 2015 and 2014 were approved and authorized for issuance by the Board of Directors (BOD) on April 15, 2016.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The parent company financial statements are prepared on a historical cost basis, except for financial asset at FVPL which is carried at fair value. The parent company financial statements are presented in United States (US) dollar, which is the Parent Company’s functional and presentation currency. All amounts are rounded off to the nearest US dollar (\$) except when otherwise indicated.



Statement of Compliance

The parent company financial statements are prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the Standing Interpretations Committee, Philippine Interpretations Committee and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the Philippine SEC.

The Parent Company also prepares and issues consolidated financial statements for the same period as the separate financial statements in compliance with PFRS. These may be obtained at the Parent Company's registered office address.

Changes in Accounting Policies and Disclosures

The Parent Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

The nature and impact of each new standard and amendment is described below:

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2015

The accounting policies adopted in the preparation of the parent company financial statements are consistent with those followed in the preparation of the parent company financial statements of the previous financial year, except for the adoption of the following new and amended standards and Philippine Interpretations from IFRIC and improved PFRS which the Parent Company has adopted starting January 1, 2015. Unless otherwise indicated, the adoption did not have any significant impact in the parent company financial statements.

- *Philippine Accounting Standard (PAS) 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
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 effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Parent Company since it does not have defined benefit plans with contributions from employees or third parties.
- *Improvements to PFRSs*
The Parent Company has applied these Improvements to PFRSs for the first time in these parent company financial statements. They include:

2010-2012 Cycle

- *PFRS 2, Share-based Payment Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service



- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Parent Company shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
 - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
 - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- *PAS 24, Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

2011-2013 cycle

- *PFRS 3 - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.



- *PAS 40, Investment Property*

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

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2015

Effective January 1, 2016

- *PFRS 9, Financial Instruments - Classification and Measurement (2010 version)*

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39.

PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Parent Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015.

This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the FRSC. Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact in the parent company financial statements.

- *PAS 16 and PAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a



revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Parent Company given that the Parent Company has not used a revenue-based method to depreciate its noncurrent assets.

- **PAS 16 and PAS 41, *Agriculture - Bearer Plants* (Amendments)**
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Parent Company as the Parent Company does not have any bearer plants.
- **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. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact in the parent company financial statements.
- **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***
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.
- **PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)**
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to PFRS 11 to specify that the



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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Parent Company.

- *PFRS 14, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Parent Company is an existing PFRS preparer, this standard would not apply.

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*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.



- *PAS 19 - Regional Market Issue Regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- *PFRS 9, Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine FRSC. Such adoption, however, is still for approval by the BOA.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 is not expected to have any significant impact in the parent company financial statements.

- *PFRS 9, Financial Instruments (2014 or final version)*
In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. 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 is not expected to have any significant impact in the parent company financial statements.

The following new standards and amendments by the IASB has not yet been adopted by the Philippine FRSC and SEC:

- *IFRS 15, Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The 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*
IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.
- *Amendments to International Accounting Standards (IAS) 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*
In January 2016, the IASB issued the amendments to IAS 12 which clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments also address the diversity in practice regarding the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted.

Summary of Significant Accounting Policies

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the 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.



A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The 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, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

For the purpose of fair value disclosures, the Parent Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash in banks. Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial assets

Initial recognition

Financial assets within the scope of PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial asset, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Parent Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such classifications at every reporting date.

Financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Parent Company commits to purchase or sell the asset.

The Parent Company's financial assets include cash and cash equivalents, financial asset at FVPL and amounts owed by related parties.



Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. Financial assets at FVPL are carried in the parent company balance sheet at fair value with gains or losses recognized in the parent company statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the parent company statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets designated as at FVPL are designated by management on initial recognition when any of the following criteria are 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 and liabilities are part of a group of financial assets, financial liabilities or both 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, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Parent Company designated its investment in Rizal Commercial Banking Corporation (RCBC) Senior Notes as financial asset at FVPL as of December 31, 2015.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate (EIR) method. This method uses an EIR that exactly discounts estimated cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned is recognized as "Interest income" in the parent company statement of comprehensive income. Assets in this category are included in the current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

The Parent Company's loans and receivables include cash in bank and cash equivalents and amounts owed by related parties.



HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Parent Company's management has the positive intention and ability to hold to maturity. When HTM investments, other than insignificant amounts are sold, the entire category would be tainted and reclassified as AFS investments. After initial measurement, HTM investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The Parent Company does not have any HTM investments as of December 31, 2015 and 2014.

AFS investments

AFS investments are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held independently and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the parent company statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in the parent company statement of comprehensive income.

As of December 31, 2015 and 2014, the Company's AFS financial asset pertains to its investment in CloudMondo, Ltd.

Financial liabilities

Initial recognition

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Parent Company determines the classification of its financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each balance sheet date.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Parent Company's financial liabilities include accrued expenses, long-term debt, amounts owed to related parties and short-term loans.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Parent Company that do not meet the hedge accounting criteria as defined by PAS 39.

Gains or losses on liabilities held for trading are recognized in the parent company statement of comprehensive income.



The Parent Company has not classified any financial liabilities at FVPL as of December 31, 2015 and 2014.

Other financial liabilities

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the parent company statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2015 and 2014, the Parent Company has no other financial liabilities.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the parent company balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Parent Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Parent Company and all of the counterparties.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value of 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 parent company statement of comprehensive income 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 parent company statement of comprehensive income 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.

Classification of financial instruments between debt and equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Parent Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Parent Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.



Impairment of Financial Assets

The Parent Company assesses at each balance sheet date whether a financial asset or a 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 an 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.

Objective evidence of impairment may include indications that the debtors or a group of contracting parties 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognized in the parent company statement of comprehensive income.

Financial assets carried at amortized cost

The Parent Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it has determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition date). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in the parent company statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss reversed. Any subsequent reversal of an impairment loss is recognized in the parent company statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.



Derecognition of Financial Instruments

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- 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
- the Parent Company has transferred its rights 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Parent Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Parent Company’s continuing involvement in the asset. In which case, the Parent Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that affects the rights and obligations that the Parent Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Parent Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Parent Company’s continuing involvement is the amount of the transferred asset that the Parent Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Parent Company’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the parent company statement of comprehensive income.

Property and Equipment

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

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.



Expenditures, such as repairs and maintenance, incurred after the property and equipment have been put into operations are normally charged to the parent company statement of comprehensive income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

When assets are sold or retired, their cost, accumulated depreciation and any impairment in value are eliminated from the accounts.

Any gain or loss resulting from the disposal is included in the parent company statement of comprehensive income.

Depreciation commences when an asset is in its location and condition and capable of being operated in the manner intended by management. The initial cost is depreciated using the straight-line method, based on the estimated useful life of five (5) years.

The estimated useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. Such a review takes into consideration the nature of the assets, their intended use and evaluation of the technology.

Investments in Subsidiaries

Subsidiaries are entities over which the Parent Company has the power, exposure, or rights to variable returns from its involvement with its subsidiaries and the ability to use its power over the investees to affect the amount of returns to the Parent Company. Investments in subsidiaries are carried at cost less accumulated impairment in value, if any.

Impairment of Investment in Subsidiaries

The Parent Company assesses at the end of each reporting period whether there is an indication that investments in subsidiaries may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such item are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the parent company statement of comprehensive income in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the 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. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive



income 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 and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred that is directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distributions, prior period adjustments, effect of changes in accounting policies and other capital adjustments. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted for a specific purpose and, therefore, not available for dividend declaration.

The Parent Company may pay dividends in cash or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the BOD, while stock dividends are subject to approval by the BOD, at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose, and by the Philippine SEC. Cash and property dividends on preferred and common stocks are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to paid-in capital.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, sales taxes or duty. The Parent Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Parent Company has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Dividend income

Dividend income is recognized when the Parent Company's right to receive payment is established.

Interest income

Interest income is recognized as it accrues using the EIR method (i.e., the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Costs and Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when incurred.



Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangements is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the 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 and extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- d. there is a substantial change to the asset.

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

Parent Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the parent company statement of comprehensive income on a straight-line basis over the lease term.

Foreign Currency Transactions and Translations

The parent company financial statements are presented in US dollars, which is the functional and presentation currency of the Parent Company. Transactions in foreign currencies are initially recorded at the functional currency spot rate ruling at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All differences are taken to the parent company statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred income tax

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



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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where 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 income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits from MCIT and unused NOLCO can be utilized except:

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in 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 balance sheet date.

Income tax relating to items recognized directly in equity is recognized in other comprehensive income and not in the parent company statement of comprehensive income.

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

Provisions and Contingencies

Provisions are recognized when the parent company has a present obligation (legal or constructive) as a result of a past event and 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. Where the Parent Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market



assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events After the Balance Sheet Date

Post year-end events that provide additional information about the Parent Company's position at the balance sheet date (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 parent company financial statements when material.

3. Summary of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the parent company financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments

In the process of applying the Parent Company's accounting policies, management has made the following judgment, apart from those involving estimations, which had the most significant effect on the amounts recognized in the parent company financial statements:

Determining functional currency

Based on the economic substance of underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the US dollar. The US dollar is the currency of the primary economic environment in which the Parent Company operates and it is the currency that mainly influences operating activities of the Parent Company.

Operating lease commitments - Parent Company as lessee

The Parent Company has entered into a lease of office space where it has determined that all significant risks and rewards of ownership of the leased space remain with the lessor.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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.

Estimation of allowance for doubtful accounts

Allowance for doubtful accounts is provided for accounts that are specifically identified to be doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts, such as historical performance of counterparties, among others. In addition to specific allowance against individually significant receivables, the Parent Company also assesses, at least on an annual basis, a collective impairment allowance



against credit exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers.

As of December 31, 2015 and 2014, management has assessed that the amounts owed by related parties are fully recoverable. The carrying value of amounts owed by related parties amounted to \$44,692,827 and \$39,181,732 as of December 31, 2015 and 2014, respectively (see Note 11).

Assessing impairment of investments in subsidiaries

The Parent Company assesses at the end of each balance sheet date whether there is any indication that its investment in subsidiaries is impaired. If any such indication exists, the Parent Company estimates the recoverable amount of its investment. Determining the fair value of these investments, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the parent company financial statements. Future events could cause management to conclude that these investments are impaired. Any resulting impairment loss could have a material adverse impact on the Parent Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

As of December 31, 2015 and 2014, management has assessed that the carrying amount of the Parent Company's investments in subsidiaries are fully recoverable. The carrying value of investments in subsidiaries amounted to \$5,981,499 as of December 31, 2015 and 2014 (see Note 6).

Estimating fair value of financial assets

The Parent Company carries certain financial assets at fair value, which requires use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates). However, the amount of changes in fair value would differ if the Parent Company utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets would affect the parent company statement of comprehensive income.

Fair values of the Parent Company's financial instruments are disclosed in Note 16.

Recognition of deferred income tax assets

The carrying amounts of deferred income tax assets at each balance sheet date are reviewed and recognized to the extent of probable taxable profit that will allow the deferred income tax assets to be utilized.

Management believes that sufficient future taxable profits will not be available in the near future against which the carryforward benefits of NOLCO and unrealized foreign exchange losses can be utilized. Carryforward benefits of NOLCO and unrealized foreign exchange losses for which no deferred income tax assets were recognized amounted to \$2,516,842 and \$1,982,484 as of December 31, 2015 and 2014, respectively (see Note 13).



4. Cash and Cash Equivalents

Cash in banks amounting to \$2,279,707 and \$10,035,366 as of December 31, 2015 and 2014, respectively, earn interest based on bank deposit rates. Cash equivalents amounting to \$14,980,875 and nil as of December 31, 2015 and 2014, respectively, are made for varying periods of up to three months depending on the immediate cash requirements of the Parent Company and earn interest at respective short-term investment rates.

Interest income earned from cash and cash equivalents amounted to \$4,019 and \$818 in 2015 and 2014, respectively.

5. Financial Asset at FVPL

The reconciliation of carrying amount of financial asset at FVPL is as follows:

	2015	2014
Beginning of year	\$–	\$4,220,621
Acquisition during the year	8,500,000	–
Fair value gains	267,580	119,673
Disposal	–	(4,340,294)
End of year	\$8,767,580	\$–

On January 21, 2015, the Parent Company acquired \$8.5 million of the USD Senior Unsecured Fixed Rate Notes offered by RCBC via a drawdown from its \$1 billion Medium Term Note Programme maturing on January 22, 2020. The senior note earns 4.25% fixed rate per annum, payable semi-annually commencing July 21, 2015. The senior note is listed and actively traded in Singapore Exchange Securities Trading Limited. The fixed rate notes are designated as financial asset at FVPL as of December 31, 2015.

The fair values for the investment in RCBC Senior Notes have been determined directly by reference to published prices quoted in an active market. The RCBC Senior Notes are traded in the Singapore Exchange (SGX).

The Parent Company recognized fair value gains amounting to \$267,580 in the parent company statement of comprehensive income in 2015. The balance of the investment in RCBC Senior Notes amounted to \$8,767,580 as of December 31, 2015.

Interest income earned on these notes amounted to \$339,174 and nil in 2015 and 2014, respectively.



6. Investments in Subsidiaries

The Parent Company's subsidiaries and the corresponding percentage equity ownership are as follows:

Subsidiaries	Country of Incorporation	Percentage of Ownership		Number of Shares
		Direct	Indirect	
CEC	Philippines	100	–	155,511,952
CEIC	BVI	100	–	50,000
CATS (formerly known as RBWI)	BVI	–	100	–
CATS - Philippine Branch	Philippines	–	100	–
Remec Broadband Wireless Real Property (RBWRP)	Philippines	–	100	–

The details of the Parent Company's investments in subsidiaries as of December 31 follow:

	2015	2014
CEC	\$2,990,749	\$2,990,749
CEIC	2,990,750	2,990,750
	\$5,981,499	\$5,981,499

CEC manufactures standard integrated circuits, discrete, hybrid and potential new packages and provides complete turnkey solutions that include wafer probing, wafer back grinding, assembly and packaging and final testing of semiconductor devices. CEIC sells integrated circuits principally in the United States of America and assigns the production of the same to CEC.

7. AFS Financial Asset

The Parent Company's AFS financial asset pertains to the unquoted investment in CloudMondo, Ltd. which is acquired at a cost of \$1,667,000 in 2015.

8. Accrued Expenses

	2015	2014
Accrued interest	\$77,085	\$67,375
Accrued expenses	56,366	13,300
	\$133,451	\$80,675

9. Short-term Loans

On September 23, 2015, the Parent Company entered into a loan agreement with RCBC for a 180-day dollar-denominated loan amounting to \$2,900,000 payable at maturity date. The loan bears interest rate of 2.25% per annum.



On October 26, 2015, the Parent Company obtained an additional 360-day dollar-denominated loan amounting to \$1,600,000 from RCBC with a 2.25% interest per annum.

As of December 31, 2015, the outstanding balance of short-term loans amounted to \$4,500,000.

Interest expense incurred from these short-term loan facilities amounted to \$22,594 in 2015.

10. Long-term Debts

	2015	2014
Principal	\$17,750,000	\$18,750,000
Less deferred financing costs	154,780	65,320
	17,595,220	18,684,680
Less current portion - net of deferred financing costs amounting to \$71,699 in 2015 and \$35,024 in 2014	3,433,849	967,861
	\$14,161,371	\$17,716,819

On July 25, 2012, the Parent Company entered into a \$10.0 million Notes Facility Agreement (NFA) with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The NFA provided for the issuance of 5-year fixed rate corporate note which bears interest of 3.6% per annum payable quarterly. On July 27, 2012 (Issue Date), the Parent Company drew \$10.0 million from the facility. The net proceeds from the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on Issue Date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the Issue Date. The remaining 70% of the loan outstanding on Issue Date in four (4) equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

Prior to the maturity date, the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the Issue Date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of prepayment.

On July 25, 2012, CEC and CEIC signed their respective Suretyship Agreement with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). Under this agreement, the Surety, solidarily with the Parent Company, binds itself to the Finance Parties, to perform and pay any and all obligations under the NFA.



In accordance with the NFA, the following ratios based on consolidated financial statements of the Group are required to be maintained:

- debt to equity ratio shall not at any time exceed 2:1
- debt service coverage ratio shall not exceed 1.5
- current ratio shall not at any time be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

On December 18, 2014, the Parent Company entered into a \$10.0 million NFA with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The NFA bears interest of 3.14% per annum payable quarterly. The net proceeds from the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on Issue Date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the issue date. The remaining 70% of the loan outstanding on issue date in four (4) equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

Prior to the maturity date, the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on the third anniversary of the issue date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of redemption at the applicable rate.

Under this agreement, the Parent Company has to maintain the following financial ratios:

- debt to equity ratio shall not at any time exceed 2:1
- debt service coverage ratio shall not exceed 1.5
- current ratio shall not at any time be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

The Parent Company is in compliance with the debt covenants as of December 31, 2015 and 2014.

Total interest expense charged to the parent company statements of comprehensive income amounted to \$757,709 and \$369,698 in 2015 and 2014, respectively.

The movement of deferred financing cost is as follows:

	2015	2014
Unamortized deferred financing cost at issue date	\$65,320	\$100,344
Transaction costs recognized	161,159	—
Amortization of deferred financing cost	(71,699)	(35,024)
Unamortized deferred financing cost at year end	\$154,780	\$65,320



11. Related Party Disclosures

Related party relationship exists when the party has the ability to control, directly or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships.

The Parent Company entered into transactions with related parties, principally consisting of the following:

- i. Working capital advances to subsidiaries
- ii. Rental of office space from CEC
- iii. Payments and reimbursements of expenses made and in behalf of the subsidiaries
- iv. Guaranty

The parent company balance sheets and parent company statements of comprehensive income include the following significant account balances resulting from the above transactions with the related parties:

a. Amounts owed by related parties

	Nature of the transaction	Amount		Outstanding Balances		Terms	Conditions
		2015	2014	2015	2014		
Subsidiaries							
CEC	Working capital advances	\$3,396,780	\$6,930,356	\$31,769,256	\$28,372,476	Due and demandable; non-interest bearing	Unsecured, no impairment
CEIC	Working capital advances	—	9,000,000	9,000,000	9,000,000	Due and demandable; non-interest bearing	Unsecured, no impairment
Other related party							
CHI	Result of assignments and settlement in 2011	—	—	1,809,256	1,809,256	Due and demandable; non-interest bearing	Unsecured, no impairment
Stockholders and affiliates	Advances	2,114,315	—	2,114,315	—	Due and demandable; non-interest bearing	Unsecured, no impairment
				\$44,692,827	\$39,181,732		

b. Amounts owed to related parties

	Nature of the transaction	Amount		Outstanding Balances		Terms	Conditions
		2015	2014	2015	2014		
Subsidiaries							
CEC	Rental of office space	\$511	\$215	\$203	\$714	Due and demandable; non-interest bearing	Unsecured
	Payments and reimbursement of expenses made in behalf of CHPC	13,477,519	10,226,741	7,925,222	21,402,944	Due and demandable; non-interest bearing	Unsecured
CEIC	Result of assignments and settlement in 2011; payment	—	—	2,339,865	2,339,865	Due and demandable; non-interest bearing	Unsecured
				\$10,265,290	\$23,743,523		



The amount owed by CHI as of December 31, 2015 and 2014 pertains to the remaining balance of receivable as a result of the assignments and set-off agreements undertaken by the Group as part of corporate restructuring in relation to the IPO of the Parent Company.

- c. The accounting and administrative function are provided by CEC at no cost to the Parent Company.
- d. On July 25, 2012, CEC and CEIC signed their respective Suretyship Agreement with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). Under this agreement, the Surety, solidarily with the Parent Company, binds itself to the Finance Parties, to perform and pay any and all obligations under the NFA (see Note 10).

12. General and Administrative Expenses

	2015	2014
Professional fees	\$111,946	\$40,288
Taxes and licenses	102,954	19,955
Representation and entertainment	75,991	51,492
Advertising	15,050	28,997
Service fee	14,188	1,134
Marketing fee	10,000	—
Penalties	6,169	—
Office supplies	2,914	1,913
Rent	203	215
Others	1,387	1,742
	\$340,802	\$145,736

13. Income Taxes

- a. There was no provision for current income tax in 2015 and 2014 because of the Parent Company's taxable loss position. The Parent Company is subjected to MCIT effective 2015.
- b. The Parent Company has no provision for income tax as shown below:

	2015	2014
Income tax at statutory tax rate	\$730,166	\$950,993
Additions to (reduction in) income tax:		
Dividend income exempt from income tax	(915,000)	(1,080,000)
Carryforward benefits of NOLCO and unrealized foreign exchange losses for which no deferred income tax assets were recognized in the current year	160,307	129,253
Interest income subject to final tax	(102,958)	(283)
Nondeductible expense	127,485	37
	\$—	\$—



- c. The Parent Company's deferred income tax liability and deferred income tax asset as of December 31, 2015 are as follows:

Deferred income tax liability on fair value gains of financial asset at FVPL	(\$80,274)
Deferred income tax asset on NOLCO	80,274
	\$-

- d. The following are the Parent Company's deductible temporary differences for which no deferred income tax assets have been recognized as management believes that it may not be probable that sufficient future taxable profit will be available against which the deferred income tax assets can be utilized:

	2015	2014
NOLCO	\$2,473,621	\$1,982,484
Unrealized foreign exchange losses	43,221	-

- e. As of December 31, 2015 and 2014, NOLCO that can be claimed as deduction from future taxable income follows:

Year incurred	Amount	Applied	Expired	Balance as of December 31, 2015	Tax effect	Available until
2012	\$248,001	\$-	\$248,001	\$-	\$-	2015
2013	782,210	-	-	782,210	234,663	2016
2014	952,273	-	-	952,273	285,682	2017
2015	1,006,718	-	-	1,006,718	302,015	2018
		\$-	\$248,001	\$2,741,201	\$822,360	

14. Equity

a. Common Shares

The rollforward of the capital stock of the Parent Company follows:

	2015	2014
<i>Number of shares</i>		
Authorized - common shares (P1.00 par value)	560,000,000	400,000,000
Issued		
Beginning of year	308,239,419	280,217,656
Stock dividend - issued and distributed (see Note 14c)	30,823,941	28,021,763
Issuance of stock	80,000,000	-
End of year	419,063,360	308,239,419
<i>Amount</i>		
Issued - 419,063,353 shares	\$9,594,321	\$7,203,869
Undistributed shares	-	689,265
	\$9,594,321	\$7,893,134



On November 18, 2011, the Parent Company was listed with the PSE its common stock, wherein it offered 42,163,000 shares to the public at issue price of ₱7 per share. The total proceeds with issuance of new shares amounted to ₱295.1 million (\$6.8 million). The Parent Company incurred transaction costs incidental to the IPO amounting to ₱47.3 million (\$1.1 million), which was charged against “Additional paid-in capital” in the 2011 parent company balance sheet.

On March 24, 2015, the Parent Company’s BOD, by majority vote, and shareholders representing two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Company’s authorized capital stock by ₱160,000,000 or from ₱400,000,000 divided into 400,000,000 common shares with a par value of ₱1.00 per share, to ₱560,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 400,000,000 preferred shares with a par value of ₱0.10 per share. The BOD also authorized the Parent Company to offer 120,000,000 shares for sale or subscription through a follow-on offering (FOO).

On July 22, 2015, the Philippine SEC approved the Company’s application to increase its authorized capital stock.

On November 4, 2015, the Parent Company’s follow-on offering was completed. The Parent Company issued 80,000,000 new shares for \$34.2 million. The Parent Company incurred transactions costs incidental to FOO amounting to \$1.2 million which is charged against “Additional paid-in capital” in the 2015 parent company balance sheet. As of December 31, 2015, unpaid stock issue costs amounted to \$17,728 recorded under “Accrued expenses” account.

As of December 31, 2015 and 2014, the Parent Company has a total number of 19 and 18 stockholders, respectively.

b. Preferred Shares

	2015	2014
<i>Number of shares</i>		
Authorized - preferred shares (₱0.10 par value)	400,000,000	—
Subscribed	400,000,000	—
<i>Amount</i>		
Subscribed - 400,000,000 shares (net of subscriptions receivable amounting to \$663,717)	\$221,239	—

In 2015, the 400,000,000 preferred shares at par value of ₱0.10 were subscribed by Camerton Inc. (Camerton), a principal shareholder of the Parent Company. As of December 31, 2015, unpaid subscriptions amounted to \$663,717.

The features of the preferred shares are (i) full voting rights, one vote for each share; (ii) preferred non-cumulative cash dividends at the rate of 1% of their par value per year, with no participation in further cash dividends which may be declared and paid to the common shares or any other class or series of shares; and (iii) the same stock dividends which may be declared and paid to the common shares or any other class or series of shares.



c. Retained Earnings

On January 29, 2014, the Parent Company's BOD declared cash dividends of \$1,200,000 or \$0.00428 per share to stockholders of record as of February 13, 2014. Also, on May 30, 2014, the Parent Company's BOD declared cash dividends amounting to \$600,000 or \$0.00214 per share to stockholders of record as of June 16, 2014.

In addition to the cash dividends, the BOD also declared a 10% stock dividend. During the special stockholders meeting dated July 11, 2014, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of July 25, 2014 and payment date of August 20, 2014.

On February 23, 2015, the Parent Company's BOD approved the declaration of cash dividends of \$1,200,000 million or \$0.003893 per share, payable on March 27, 2015 to stockholders of record as of March 10, 2015. The cash dividend shall be paid in Philippine Peso at Bangko Sentral ng Pilipinas (BSP) exchange rate one day before payment date.

On August 10, 2015, the Parent Company's BOD approved the declaration of cash dividends of \$891,200 or \$0.002628 per share for each of 339,063,353 fully paid and issued common shares and \$8,800 or \$0.000022 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$900,000, for payment and distribution on August 28, 2015 to shareholders of record of August 25, 2015. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

15. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise of cash in banks and cash equivalents. The main purpose of these financial instruments is to support the Parent Company's operation. The Parent Company has various other financial instruments such as trade and other amounts owed by related parties, financial asset at FVPL, AFS financial asset, accrued expenses, amounts owed to related parties and long-term debt which generally arise directly from its operations.

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Parent Company.

The main risks arising from the financial instruments of the Parent Company are credit risk, liquidity risk and foreign currency risk. The Parent Company's management reviews and approves policies for managing each of these risks and they are summarized below.

Credit risk

Credit risk is the risk that the Parent Company will incur a loss because its counterparties failed to discharge their contractual obligations.

The Parent Company deals only with recognized, creditworthy third parties. It is the Parent Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Parent Company's exposure to bad debts is not significant.



Credit quality per class of financial instrument follows:

December 31, 2015

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Sub-standard Grade			
Cash and cash equivalents	\$17,260,582	\$-	\$-	\$-	\$-	\$17,260,582
Financial asset at FVPL	8,767,580	-	-	-	-	8,767,580
Amounts owed by related parties	44,692,827	-	-	-	-	44,692,827
AFS financial asset	1,667,000	-	-	-	-	1,667,000
	\$72,387,989	\$-	\$-	\$-	\$-	\$72,387,989

December 31, 2014

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Sub-standard Grade			
Cash and cash equivalent	\$10,035,366	\$-	\$-	\$-	\$-	\$10,035,366
Amounts owed by related parties	39,181,732	-	-	-	-	39,181,732
	\$49,217,098	\$-	\$-	\$-	\$-	\$49,217,098

The Parent Company's financial assets are categorized based on the Parent Company's collection experience with the third parties as follows:

- High Grade - settlements are obtained from counterparty following the terms of the contracts without much collection effort.
- Standard Grade - some reminder follow-ups are performed to obtain settlement from the counterparty.
- Sub-standard Grade - constant reminder follow-ups are performed to collect accounts from counterparty.
- Impaired - difficult to collect with some uncertainty as to collectibility of the accounts.

Liquidity risk

Liquidity risk is the risk that the Parent Company may encounter difficulties in raising funds to meet commitments from financial instruments. Liquidity risk may result from a counterparty's failure on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Parent Company maintains sufficient cash to finance its operations and major capital expenditures and satisfy its maturing obligations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.



The table below summarizes the maturity analysis of the Parent Company's financial assets used for liquidity management and financial liabilities based on contractual undiscounted payments:

December 31, 2015

	Less than 3 months	3 to 12 months	More than 1 year but less than 5 years	Total
Financial Liabilities				
Amounts owed to related parties	\$10,265,290	\$-	\$-	\$10,265,290
Accrued expenses*	37,950	-	-	37,950
Short-term loans	2,900,000	1,600,000	-	4,500,000
Long-term debts**	642,260	3,421,347	14,982,816	19,046,423
	\$13,845,500	\$5,021,347	\$14,982,816	\$33,849,663
Financial Assets				
Cash and cash equivalents	\$17,260,582	\$-	\$-	\$17,260,582
Financial asset at FVPL	-	-	8,767,580	8,767,580
Amounts owed by related parties	44,692,827	-	-	44,692,827
	\$61,953,409	\$-	\$8,767,580	\$70,720,989

*Excluding statutory liabilities

**Includes future interest payments

December 31, 2014

	Less than 3 months	3 to 12 months	More than 1 year but less than 5 years	Total
Financial Liabilities				
Amounts owed to related parties	\$23,743,523	\$-	\$-	\$23,743,523
Accrued expenses*	13,157	-	-	13,157
Long-term debts**	327,535	970,140	18,064,450	19,362,125
	\$24,084,215	\$970,140	\$18,064,450	\$43,118,805
Financial Assets				
Cash and cash equivalents	\$10,035,366	\$-	\$-	\$10,035,366
Amounts owed by related parties	39,181,732	-	-	39,181,732
	\$49,217,098	\$-	\$-	\$49,217,098

*Excluding statutory liabilities

**Includes future interest payments

Foreign currency risk

The Parent Company uses the US dollar as its functional currency and is therefore exposed to foreign exchange movements, primarily in Philippine Peso currency. The Parent Company follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-US dollar currencies.



The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Parent Company's income before income tax as of December 31:

	Foreign Currency appreciates by	Effect on Income Before Tax	Foreign Currency depreciates by	Effect on Income Before tax
2015				
Peso denominated assets	+5%	(\$38,477)	-5%	\$38,477
Peso denominated liabilities	+5%	378,962	-5%	(378,962)
		\$340,485		(\$340,485)
<hr/>				
	Foreign Currency appreciates by	Effect on Income Before Tax	Foreign Currency depreciates by	Effect on Income Before tax
2014				
Peso denominated assets	+5%	(\$242,308)	-5%	\$242,308
Peso denominated liabilities	+5%	62,838	-5%	(62,838)
		(\$179,470)		\$179,470

The change in currency rate is based on the Parent Company's best estimate of its expected change considering the historical trends and experiences. There is no other effect on the Parent Company's equity other than those already affecting income before tax.

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, which pertains to its equity as shown in the balance sheet 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, return capital to shareholders or issue new shares.

As of December 31, 2015, the Parent Company is subject to externally imposed capital requirements. As of December 31, 2015, the Parent Company was able to meet its capital requirements and management objectives.

16. Fair Value of Financial Instruments

The following table sets out the comparison by category of carrying amounts and fair values of all the Parent Company's financial instruments:

December 31, 2015

	Carrying Amount	Fair Value
<i>Financial assets</i>		
Loans and receivables:		
Cash and cash equivalents	\$17,260,582	\$17,260,582
Financial asset at FVPL	8,767,580	8,767,580

(Forward)



	Carrying Amount	Fair Value
Amounts owed by related parties	\$44,692,827	\$44,692,827
Interest receivable*	157,786	157,786
	70,878,775	70,878,775
AFS financial asset	1,667,000	1,667,000
	\$72,545,775	\$72,545,775
<i>Financial liabilities</i>		
Other financial liabilities:		
Amounts owed to related parties	\$10,265,290	\$10,265,290
Accrued expenses	37,950	37,950
Short-term loans	4,500,000	4,500,000
Long-term debts	17,595,220	17,595,220
	\$32,398,460	\$32,398,460

*Presented as other current assets in the 2015 parent company balance sheet

December 31, 2014

	Carrying Amount	Fair Value
<i>Financial assets</i>		
Loans and receivables:		
Cash and cash equivalents	\$10,035,366	\$10,035,366
Amounts owed by related parties	39,181,732	39,181,732
	\$49,217,098	\$49,217,098
<i>Financial liabilities</i>		
Other financial liabilities:		
Amounts owed to related parties	\$23,743,523	\$23,743,523
Accrued expenses	13,157	13,157
Long-term debts	18,684,680	18,684,680
	\$42,441,360	\$42,441,360

Fair Values of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices.

Cash and cash equivalents, interest receivable, amounts owed by and owed to related parties, short-term loans and accrued expenses (excluding statutory liabilities)

The carrying amounts approximate their fair values since these are mostly short-term in nature or are due and demandable.

Financial asset at FVPL

The investment in RCBC Senior Notes classified as financial asset at FVPL is stated at its fair values based on the quoted prices in an active market (Level 1).

AFS financial asset

The fair value of investment in CloudMondo, Ltd. cannot be reliably measured as it is not traded in the financial market.



Long-term debts

The fair value of long-term debts is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discounts rates used range from 3.63% to 4.01% in 2015 and 2014.

Fair Value Hierarchy

The Parent Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

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

Only the financial asset at FVPL, which is classified under Level 1 are measured and carried at fair value. There were no transfers made in the fair value measurements in 2015 and 2014.

17. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

The Parent Company has no revenue that is subject to output VAT.

The Parent Company also reported and/or paid the following types of taxes in 2015:

Withholding Taxes

Total expanded withholding tax paid amounted to ₱1,375,596 in 2015.

Taxes and Licenses

Taxes and licenses, local and national, include licenses and permit fees for 2015:

License and permit fees	₱4,373,001
Documentary stamp taxes	724,534
	<u>₱5,097,535</u>

Tax Assessments and Cases

The Parent Company has not received any Final Assessment Notice or Formal Letter of Demand from the BIR for its open years as of December 31, 2015.



