

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2019

2. Commission identification number A200117708

3. BIR Tax Identification No 219-934-330

4. Xurpas Inc.

Exact name of issuer as specified in its charter

Philippines

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (For SEC Use Only)

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

7. Address of issuer's principal office

1227

Postal Code

(632) 889-6467

8. Issuer's telephone number, including area code

Not Applicable

9. Former name, former address and former fiscal year, if changed since last report

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

Title of Each Class
Common Shares

Number of Shares of Common Stock Outstanding
1,871,355,210

11. Are any or all of the securities listed on a Stock Exchange?

Yes [] No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange Common Shares 1,797,700,660

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Unaudited Interim Condensed Consolidated Statements of Financial Position
As at September 30, 2019 (with Comparative Audited Consolidated Statements of Financial Position as at December 31, 2018)

Unaudited Interim Condensed Consolidated Statements of Income and Comprehensive Income
For the Nine-Month Periods Ended September 30, 2019 and 2018

Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the Nine-Month Periods Ended September 30, 2019 and 2018

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the Nine-Month Periods Ended September 30, 2019 and 2018

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Attachments:

Schedule I: Map Showing the Relationships Between and Among the Companies in the Group, Its Subsidiaries and Associate

Schedule II: Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards

Schedule III: Reconciliation of Retained Earnings Available for Dividend Declaration

Schedule IV: Financial Ratios

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The MD&A is a discussion and analysis of the Company's financial position as at September 30, 2019 and December 31, 2018 and performance for the nine-month periods ended September 30, 2019 and 2018. The primary objective of this MD&A is to help the readers understand the dynamics of the Company's business and the key factors underlying the Company's financial results.

The MD&A as of and for the nine-month period ended September 30, 2019 and 2018 should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes.

PART I--FINANCIAL INFORMATION

Item 1. – FINANCIAL STATEMENTS

XURPAS INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash (Notes 5 and 26)	P281,054,557	P177,396,187
Accounts and other receivables (Notes 6 and 26)	63,529,625	530,636,685
Contract assets (Note 7)	1,283,079	9,748,084
Other current assets (Note 9)	50,435,677	57,901,437
Total Current Assets	396,302,938	775,682,393
Noncurrent Assets		
Financial assets at fair value through other comprehensive income (Notes 8 and 26)	475,000	475,000
Investments in associates (Note 10)	451,487,415	455,995,470
Property and equipment (Note 11)	15,248,667	59,520,797
Intangible assets (Note 12)	1,905,305,184	3,612,923,684
Pension asset	–	1,410,282
Deferred tax assets – net	6,642,055	14,186,692
Other noncurrent assets	36,729,045	46,370,777
Total Noncurrent Assets	2,415,887,366	4,190,882,702
	P2,812,190,304	P4,966,565,095
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 26)	P511,376,620	P654,522,147
Loans payable (Notes 14 and 26)	54,507,974	358,741,481
Contract liabilities (Note 7)	49,963,864	44,498,497
Income tax payable	–	2,190,193
Other current liabilities (Note 15)	754,039	63,753,036
Total Current Liabilities	616,602,497	1,123,705,354
Noncurrent Liabilities		
Advances from stockholders - net of current	150,000,000	–
Finance lease - net of current portion	16,826	25,388
Deferred tax liabilities – net	7,942,639	352,729,028
Pension liabilities	23,521,092	23,521,092
Total Noncurrent Liabilities	181,480,557	376,275,508
Total Liabilities	798,083,054	1,499,980,862
Equity		
Equity attributable to equity holders of Xurpas Inc.		
Capital stock (Note 24)	193,492,585	193,492,585
Additional paid-in capital (Note 24)	3,592,076,662	3,592,076,662
Retained earnings (Note 24)	(1,168,920,047)	(556,374,537)
Net unrealized loss on financial assets at FVOCI (Note 8)	(44,219,956)	(44,219,956)
Cumulative translation adjustment	32,165,066	34,451,988
Retirement benefit reserve	1,632,860	5,475,312
Equity reserve (Notes 23 and 24)	(402,222,322)	(402,222,322)
Treasury stock (Note 24)	(114,403,275)	(115,464,275)
	2,089,601,573	2,707,215,457
Noncontrolling interests	(75,494,323)	759,368,776
Total Equity	2,014,107,250	3,466,584,233
	P2,812,190,304	P4,966,565,095

See accompanying Notes to Interim Condensed Consolidated Financial Statements

XURPAS INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For the nine-month period ended		For the three-month period ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
INCOME				
Service income (Note 16)	₱853,196,286	₱817,835,408	₱263,101,276	₱248,240,849
Sale of goods	68,813,599	51,267,259	18,760,917	11,392,157
	922,009,885	869,102,667	281,862,193	259,633,006
COST AND EXPENSES				
Cost of services (Note 17)	662,740,030	700,309,831	200,147,531	216,473,984
Cost of goods sold	57,108,835	40,600,989	17,025,161	11,703,228
	719,848,865	740,910,820	217,172,692	228,177,212
GENERAL AND ADMINISTRATIVE EXPENSES (Note 18)	317,239,393	347,552,298	102,766,445	104,013,667
EQUITY IN NET LOSSES OF ASSOCIATES (Note 10)	4,508,055	27,974,188	(3,019,871)	6,227,774
OTHER CHARGES (INCOME) – NET (Note 19)	513,999,859	3,816,421	493,724,973	(16,450,922)
	835,747,307	379,342,907	593,471,547	93,790,519
INCOME (LOSS) BEFORE INCOME TAX	(633,586,287)	(251,151,060)	(528,782,046)	(62,334,725)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)	22,841,092	(60,739,273)	12,288,122	(15,569,083)
NET INCOME (LOSS)	(656,427,379)	(190,411,787)	(541,070,168)	(46,765,642)
OTHER COMPREHENSIVE INCOME				
<i>Item that may be reclassified to profit or loss in subsequent periods:</i>				
Cumulative translation adjustment	(1,493,844)	2,559,813	(8,779,426)	(13,795,494)
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱657,921,223)	(₱187,851,974)	(₱549,849,594)	(₱60,561,136)

(Forward)

	For the nine-month period ended		For the three-month period ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Net income (loss) attributable to:				
Equity holders of Xurpas Inc.	(P667,037,656)	(P186,806,364)	(P548,753,314)	(P49,758,995)
Noncontrolling interests	10,610,279	(3,605,423)	7,683,148	2,993,353
	(P656,427,377)	(P190,411,787)	(P541,070,166)	(P46,765,642)
Total comprehensive income (loss) attributable to:				
Equity holders of Xurpas Inc.	(P669,324,578)	(P184,386,556)	(P557,532,739)	(P58,694,490)
Noncontrolling interests	11,403,357	(3,465,418)	7,683,147	(1,866,646)
	(P657,921,221)	(P187,851,974)	(P549,849,592)	(P60,561,136)
Earnings (Loss) Per Share (Note 25)				
Basic	(P0.36)	(P0.10)	(P0.30)	(P0.03)
Diluted	(P0.36)	(P0.10)	(P0.30)	(P0.03)

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	September 30	
	2019	2018
	(Unaudited)	(Unaudited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS INC.		
CAPITAL STOCK - ₱0.10 par value (Note 24)		
Authorized – 5,000,000,000 shares		
Issued and outstanding		
Balance at beginning of period	₱193,492,585	₱186,764,015
Issuance of new shares through cash subscription	–	6,728,570
Balance at end of period	193,492,585	193,492,585
ADDITIONAL PAID-IN CAPITAL (Note 24)		
Balance at beginning of period	3,592,076,662	3,343,119,550
Issuance of new shares through cash subscription	–	248,957,112
Balance at end of period	3,592,076,662	3,592,076,662
RETAINED EARNINGS (Note 24)		
Appropriated		
Balance at beginning and end of period	115,464,275	115,464,275
Unappropriated		
Balance at beginning of period	(671,838,812)	207,266,583
Net loss	(667,037,656)	(137,047,369)
Acquisition of Noncontrolling interest	36,090,788	
Sale of Subsidiary	18,401,358	
Balance at end of period	(1,284,384,322)	70,219,214
	2,616,649,200	185,683,489
NET UNREALIZED LOSS ON FINANCIAL ASSETS AT FVOCI		
(Note 8)		
Balance at beginning and end of period	(44,219,956)	(70,000)
CUMULATIVE TRANSLATION ADJUSTMENT		
Balance at beginning of period	34,451,988	35,366,128
Movement during the period	(2,286,922)	11,355,303
Balance at end of period	32,165,066	46,721,431
RETIREMENT BENEFIT RESERVE		
Balance at beginning and end of period	5,475,312	(1,189,261)
Other transactions	(3,842,452)	
Balance at end of period	1,632,860	(1,189,261)
EQUITY RESERVE (Notes 23 and 24)		
Balance at beginning and end of period	(402,222,322)	(1,250,719,186)
TREASURY STOCK (Note 24)		
Balance at beginning of period	(115,464,275)	(115,464,275)
Sale of treasury shares	1,061,000	–
Balance at end of period	(114,403,275)	(115,464,275)
	2,089,601,573	2,650,531,445
NONCONTROLLING INTERESTS		
Balance at beginning of period	759,368,776	834,961,420
Acquisition of NCI	(36,090,788)	–
Increase in NCI	7,082,805	
Cumulative translation adjustment	793,078	5,000,004
Sale of subsidiary	(817,258,473)	
Net income (loss)	10,610,279	(6,598,776)
Balance at end of period	(75,494,323)	833,362,648
	₱2,014,107,250	₱3,483,894,093

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS

	September 30	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	(P633,586,287)	(P188,816,335)
Adjustments for:		
Depreciation and amortization (Notes 17 and 18)	64,648,906	31,353,819
Interest expense (Note 19)	34,844,247	12,023,645
Equity in net loss of associates (Note 10)	4,508,055	21,746,414
Provision for impairment loss (Note 18)	486,711	1,621,940
Realized foreign exchange loss on sale of cryptocurrencies	486,765	–
Loss on sale of cryptocurrencies (Note 19)	188,067	–
Realized gain from redemption of financial assets at FVPL (Note 8)	–	(305,623)
Unrealized foreign currency exchange gain (loss)	–	509,913
Interest income (Notes 5 and 19)	(1,439,337)	–
Disposal of asset	274,636	
Operating income (loss) before changes in working capital	(529,588,237)	(121,866,227)
Changes in working capital		
Decrease (increase) in:		
Accounts and other receivables and contract assets - net	(68,241,273)	154,625,105
Other current assets	(18,351,804)	(29,445,361)
Increase (decrease) in:		
Accounts and other payables	46,573,241	(69,231,309)
Contract liabilities	26,123,562	
Other current liabilities	(16,222,297)	(16,055,918)
Net cash generated from (used in) operations	(559,706,808)	(81,973,710)
Interest received	1,439,336	305,623
Interest paid	(28,904,739)	(11,055,251)
Income taxes paid	(18,148,172)	(24,399,399)
Net cash provided by (used in) operating activities	(605,320,383)	(117,122,737)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceed from disposal of Yondu shares, net of cash disposed	860,468,337	
Proceeds from sale of intangible assets	12,727,253	
Additions to property and equipment (Note 11)	(11,379,247)	(11,810,672)
Proceed from sale of PPE	(1,905,527)	
Decrease (increase) in noncurrent assets	(15,112,074)	961,474
Net cash provided by (used in) investing activities	844,798,742	(10,849,198)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from stockholders	150,000,000	–
Increase in noncontrolling interest	7,082,805	–
Acquisition of NCI – Xeleb Tech	4,000,000	
Proceeds from loan availments	–	126,455,242
Sale of treasury shares	1,061,000	–
Dividends paid	(299,788)	–
Payment of short-term loan payable (Note 14)	(304,233,507)	(61,354,750)
Net cash provided by (used in) financing activities	(142,389,490)	65,100,492
EFFECT OF FOREIGN CURRENCY EXCHANGE		
RATE CHANGES ON CASH	6,569,501	27,104,766

NET INCREASE (DECREASE) IN CASH	103,658,370	(35,766,677)
CASH AT BEGINNING OF PERIOD	177,396,187	215,254,510
CASH AT END OF PERIOD (Note 5)	P281,054,557	P179,487,833

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

On December 2, 2014, the Parent Company's shares of stock were listed in the PSE.

The accompanying interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on November 14, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements of the Group as at September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018, have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

Accordingly, the interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements as at and for the year ended December 31, 2018.

The interim condensed consolidated financial statements are presented in Philippine Peso (₱), the Group's presentation currency. All amounts were rounded-off to the nearest Peso, except when otherwise indicated. The interim condensed consolidated financial statements have been prepared under the historical cost basis, except for fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments which have been measured at fair value.

Statement of Compliance

The accompanying interim condensed consolidated financial statements of the Group as at September 30, 2019 and December 31, 2018 and for the nine-month periods ended September 30, 2019 and 2018 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as at September 30, 2019 and December 31, 2018.

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

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

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

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

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

As at September 30, 2019 and December 31, 2018, the consolidated financial statements comprise the financial statement of the Parent Company and the following domestic subsidiaries:

	Percentage Ownership		Principal Activities
	September 30, 2019	December 31, 2018	
Xeleb Technologies Inc. (formerly Fluxion, Inc.) (Xeleb Technologies)	67.00%	67.00%	Enterprise services
Xeleb Inc. (Xeleb)	67.00	67.00	Mobile consumer services
Seer Technologies, Inc. (Seer)	70.00	70.00	Enterprise services
Codesignate Inc. (Codesignate)*	52.50	52.50	Enterprise services
Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.) (Storm)	51.31	53.96	Human resource management
Pt. Storm Benefits Indonesia (Storm Indonesia)	51.31	53.96	Human resource management Mobile consumer services and
Yondu, Inc. (Yondu)	nil	51.00	enterprise services
Rocket Search Inc. (formerly Yondu Software Labs Inc.) (RSI)	nil	51.00	Enterprise services
Xurpas Enterprise Inc. (Xurpas Enterprise)	100.00	100.00	Enterprise services
Art of Click Pte. Ltd. (AOC)	100.00	100.00	Mobile consumer services
ODX Pte. Ltd. (ODX)	100.00	100.00	Enterprise services

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

All subsidiaries are domiciled in the Philippines except for Storm Indonesia, AOC and ODX which are domiciled in Indonesia and Singapore, respectively.

Xeleb Technologies, Inc.

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 35% interest in Xeleb Technologies for ₱45 million. The acquisition of the 35% interest resulted in the Parent Company acquiring 100% interest in Xeleb Technologies.

On the same date, Xeleb Technologies acquired 3,349,996 shares or 67% majority stake in Xeleb Inc. (Xeleb) from the Parent Company at ₱1.00 per share or ₱3.35 million. In addition, Xeleb Technologies acquired the remaining 33% stake in Xeleb from its minority stakeholders for a total consideration of ₱1.65 million. This resulted in 100% ownership interest of Xeleb Technologies in Xeleb.

Xeleb Technologies and Xeleb are entities under common control of the Parent Company before and after the restructuring. As a result, the acquisition was accounted for using the pooling of interests method. This transaction has no effect on the carrying amounts of the Group's assets and liabilities, but has resulted to consolidation of Xeleb's assets and liabilities into Xeleb Technologies (see Note 23).

On November 21, 2016, the SEC approved the increase in authorized capital stock of Xeleb Technologies. On the same date, Xeleb Technologies issued shares in relation to Subscription Agreements by the Parent Company, Selajo Inc., Conrev Inc., Joseliemm Holdings Inc. and Rainy Day Future Entertainment, Inc. for a total subscription of 1,000,000,000 common shares. This resulted in the reduction of the Parent Company's interest in Xeleb Technologies to 67%.

During the period, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 33% stake in Xeleb Technologies from its minority stakeholders for a total consideration of ₱4.00 million. This resulted in 100% ownership of Parent Company in Xeleb Technologies.

On September 11, 2019, the board of directors of the Parent Company approved the dissolution of Xeleb Technologies.

Xurpas Enterprise Inc.

On March 23, 2016, the Parent Company incorporated Xurpas Enterprise. Xurpas Enterprise was organized to primarily engage in the business of software development including designing, upgrading and marketing all kinds of information technology systems or parts thereof and other related services.

Xeleb Inc.

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

On September 11, 2019, the board of directors of the Parent Company approved the dissolution of Xeleb.

Storm Technologies, Inc.

On October 27, 2016, the Parent Company acquired additional 3,735 common shares of Storm for ₱10.00 million. This brought Parent Company's ownership from 51.52% to 56.60% of the outstanding capital stock of Storm and there was no change in control (see Note 23).

In 2018, Storm issued 3,601 common shares to various individuals for a total of ₱11.97 million. This brought down the Parent Company's ownership from 56.60% to 53.96% of the outstanding capital stock of Storm, which resulted in a transfer of the Parent Company's share in the accumulated net losses of Storm to the noncontrolling interest amounting to ₱3.19 million. Net increase in NCI amounted to ₱8.78 million. No change in control resulted from the said transaction.

During the nine-month period ended September 30, 2019, Storm issued 3,985 common shares to various individuals for a total of ₱7.08 million. This brought down the Parent Company's ownership from 53.96% to 51.31% of the outstanding capital stock of Storm. No change in control resulted from the said transaction.

Art of Click Pte. Ltd.

On October 6, 2016, the Parent Company signed a Share Purchase Agreement with Emmanuel Michael Jean Allix and Wavemaker Labs Pte. Ltd. (the "Sellers") for the acquisition of 100% stake in Art of Click for an aggregate consideration of ₱1.94 billion in cash and in Parent Company's shares (see Note 23).

AOC is engaged in the business of mobile media agency that offers a marketing platform for advertisers.

ODX Pte. Ltd.

On April 27, 2018, the Parent Company incorporated a wholly-owned subsidiary in Singapore, ODX, with the following principal activities: 1) other information technology and computer service activities (e.g., disaster recovery services) and 2) development of software for interactive digital media (except games).

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2019. Adoption of these new standards and amendments did not have any significant impact on the consolidated financial position or performance unless otherwise indicated.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest (SPPI) on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for the classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early

termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

The Group continues to assess the impact of adopting PFRS 9.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

- *Annual Improvements to PFRS 2015-2017 Cycle*

- *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

- *Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

- *Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the

annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019 with early application permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Current and Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see Note 26).

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

Financial Instruments – initial recognition and subsequent measurement

Date of recognition

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

a. Financial assets

Initial recognition of financial instrument

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables are measured at the transaction price determined under PFRS 15. Refer to the accounting policies on revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes "Cash" and "Accounts and other receivables" (except for "Advances to employees" which are subject to liquidation), "Refundable deposits" under other current assets, and "Cash bond" under other noncurrent assets.

Financial assets at FVOCI (debt instruments)

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group has not designated any financial assets under this category.

Financial assets at FVOCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its quoted and unquoted equity investments under this category.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing 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 with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of comprehensive income.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognized as other income in profit or loss when the right of payment has been established.

The Group has designated its unquoted debt investments under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired
Or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group could be required to repay.

Impairment of Financial Assets and Contract Assets

The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix for trade receivables and contract assets that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets such as receivable from related parties, other receivables, refundable deposits under other current assets, cash bond under other noncurrent assets and financial assets at FVOCI (debt instruments), ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, where there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables and contract assets in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 90 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 60 days past due.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

b. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include "Accounts and other payables" (except "Deferred output VAT", "Taxes payable" and provision relating to PSA and statutory payables included as "Others"), "Loans payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities are only designated as at FVPL when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in equity reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Financial liabilities arising from amounts received under the Share and Token Allocation Agreement classified as "Nontrade payables" under "Accounts and other payables" were designated at FVTPL as it contains embedded derivatives.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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 EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to short-term debts.

Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as accounts payable and accrued expenses where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to 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. 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 the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effect of restatement of foreign currency-denominated liabilities is recognized in profit or loss.

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

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

c. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Investments in Associates

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

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

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

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associate, less any impairment in values. The consolidated statement of comprehensive income reflects the share of the results

of the operations of the associate company. The Group's share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the associate company are eliminated to the extent of the interest in the associate company and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

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

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

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

Inventories

Inventories are stated at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Property and Equipment

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

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

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

	Years
Transportation equipment	3 to 5
Office equipment	2 to 4
Information technology (IT) equipment	2 to 4
Furniture and fixtures	2 to 5
Leased asset	3 to 5
Leasehold improvements	Useful life or lease term, whichever is shorter

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

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

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

in the year the asset is derecognized.

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Cryptocurrencies which are not held in the ordinary course of business are recognized as intangible assets as these are identifiable non-monetary asset without physical substance.

Following initial recognition, intangible assets (other than cryptocurrencies) are carried at cost less any accumulated amortization and accumulated impairment losses. Cryptocurrencies are subsequently carried at revalued amount, being its fair value at the date of the revaluation less any accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

The estimated useful lives of intangible assets follow:

	Years
Customer relationships	Indefinite
Cryptocurrencies	Indefinite
Leasehold rights	7
Developed software	5 – 8

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

If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If the cryptocurrencies' carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Research and Development Costs

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of goods sold.

Business Combinations and Goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument, is measured at fair value with changes in fair value recognized either in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Noncontrolling Interests

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

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

Written put option over NCI

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

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

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

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

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

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

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

Combinations of Entities under Common Control

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

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

Impairment of Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Investments in associates

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

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

Intangible assets with indefinite useful life

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

Impairment of goodwill

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

Equity

Capital stock and additional paid-in capital

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

Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. The costs of an equity transaction that is abandoned are recognized as an expense.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Retained earnings (deficit)

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

Unappropriated retained earnings

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

Appropriated retained earnings

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

Equity reserve

Equity reserve represents:

- (a) a portion of equity against which the recognized liability for a written put option was charged;
- (b) a portion of equity against which payments to a former shareholder of a subsidiary was charged;
- (c) gains or losses resulting from increase or decrease in ownership without loss of control; and
- (d) difference between the consideration transferred and the net assets acquired in common control business combination.

Revenue Recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

Service income

Service income consists of revenue from Value Added Services (VAS) and Business Process Outsourcing (BPO). BPO is further subdivided into IT Staffing, Custom Development and Managed Services, and Products.

VAS are mobile and content application services provided to mobile subscribers. Revenue is recognized at a point in time, that is when services are delivered to the customers during the period.

IT staffing is a business segment where the Group deploys resources to clients to fulfill their IT requirements. Revenue is recognized at a point in time, that is when services are rendered to the customers during the period.

Custom Development and Managed Services are services offered to customers that are produced in the Company's premises. Revenue is recognized over time and at a point in time. In measuring the progress of its performance obligation over time for Custom Development, the Group uses the output method which measures progress based on the completion of proportion of work done and requires technical determination by the IT specialists.

Products are readily available solutions that will cater to customers' requirements. Revenue is recognized at a point in time, that is when goods are delivered to the customers during the period.

Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of discounts and applicable taxes. Revenue is recognized at a point in time, which is normally upon delivery.

For the year ended December 31, 2018, the Group has no variable consideration but the timing of revenue recognition resulted in contract assets and liabilities.

Contract Balances

Receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional (e.g., warranty fees).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer (e.g., upfront fees, implementation fees, subscription fees, etc.). If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Interest Income

Interest income is recognized as it accrues using the effective interest method.

Other Income

Other income is recognized as it accrues.

Cost and Expenses

"Cost of services", "Cost of goods sold", and "General and administrative expenses" are expenditures recognized in the consolidated statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measure reliably. The following specific recognition criteria must also be met before costs and expenses are recognized:

Cost of services

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

Cost of goods sold

Cost of goods sold consists of inventory costs related to goods which the Group has sold. Inventory costs include all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

General and administrative expenses

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

Leases

Group as lessee

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

Finance lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets or the respective lease terms.

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date. Movements in deferred tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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

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

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

Value-Added Tax (VAT)

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

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

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

Pensions and other long-term employee benefits

The net pension liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

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

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

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Remeasurements comprising actuarial gains and losses are recognized immediately in the consolidated statements of financial position with a corresponding debit or credit through other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

The Group also provided other long-term employee benefit obligations to an employee of a subsidiary as remuneration for the services provided by the employee to the subsidiary, which are to be settled in cash. A liability and expense for the long-term employee benefit is recognized when the services have been rendered and is amortized during the period of entitlement.

Foreign Currency Transactions

The Group's consolidated financial statements are presented in Philippine Peso, which is also the Parent Company and the subsidiaries' functional currency, except for AOC and ODX, which is US dollar, and Storm Indonesia, which is Indonesian Rupiah. The Philippine peso is the currency of the primary economic environment in which the Parent Company operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

As at reporting date, the assets and liabilities of subsidiaries whose functional currency is not the Philippines Peso are translated into the presentation currency of the Parent Company (the Philippine Peso) at the closing rate as at the reporting date, and the consolidated statement of income accounts are translated at monthly weighted average exchange rate. The exchange differences arising on the translation are taken directly to a separate component of equity under "Cumulative translation adjustment" account. Upon disposal of a foreign subsidiary, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Investments in foreign associates are translated to Philippine Peso using the closing exchange rate prevailing at reporting date. The Group's share in the results of operations of the foreign investee is translated using the exchange rate at the dates of the transactions or, where practicable, the rate that approximates the exchange rates at the dates of the transactions, such as the average rate for the period. Any resulting exchange difference is recognized as a separate component of equity.

Earnings per Share (EPS)

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets. Financial information on business segments is presented in Note 27 to the consolidated financial statements.

Provisions

Provisions are recognized when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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.

This policy also applies to proceeds received from the Token Pre-Sale Agreement for which management has assessed that it has a present constructive obligation to the token investors.

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

Contingencies

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

This policy also applies to agreements which the Group entered into with certain advisors for which the services received are to be paid through internally generated tokens in the future and for which the obligation cannot be measured with sufficient reliability.

Events after the Reporting Period

Post year-end events up to date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material. Information on events after the reporting period is presented in Note 28 to the consolidated financial statements.

3. Significant Accounting Judgments and Estimates and Assumptions

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

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

Judgments

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

a. Determination of control over investment in subsidiaries

The Group determined that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

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

b. Existence of significant influence over an associate

The Group determined that it exercises significant influence over its associates (see Note 10) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

c. *Capitalization of development costs*

The Group determined that intangible assets arising from development qualify for recognition by determining that all of the following are present:

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

d. *Determination of identifiable intangible assets acquired through business combination*

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

The following are the intangible assets acquired through business combinations:

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

e. *Indefinite useful life of customer relationships*

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

f. *Determination of constructive obligation arising from cryptocurrency transactions*

The Group determined that a constructive obligation exists based on the terms of the agreements and the general expectations of the counterparties.

Management's Use of Estimates

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

a. *Evaluating impairment of goodwill and intangible assets with indefinite useful lives*

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

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

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

The carrying values of these nonfinancial assets follow:

	September 30, 2019	December 31, 2018
Goodwill (Notes 12 and 23)	₱1,859,614,233	₱2,399,762,153
Customer relationship (Notes 12 and 23)	–	1,077,809,700
	₱1,859,614,233	₱3,477,571,853

b. Revenue recognition

The Group's revenue recognition require management to make use of estimates that may affect the reported amount of revenue. The Group's revenue from sale of services for development projects recognized based on the percentage of completion are measured principally on the basis of the estimated completion of the development services. In measuring the progress of its performance obligation over time, the Group uses the output method which measures progress based on the completion of proportion of work done and requires technical determination by the Group's specialists.

c. Provisions and contingencies

The Group is currently involved in assessments for national taxes. The estimate of the probable costs for the resolution of these assessments has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these assessments will have a material effect on the Group's consolidated financial position and results of operations.

d. Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss pattern.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

e. Realizability of deferred tax assets

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

4. Seasonality of Interim Operations

The Group is subject to the seasonality of revenue realization due to Storm's Flexible Benefits Program. Historically, Storm's sales tend to increase in the second half of the year as observed from its customer behavior to likely avail their converted benefits towards the end of the year.

5. Cash

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash on hand and in banks	₱75,660,299	₱177,396,187
Cash equivalents	205,394,258	–
	₱281,054,557	₱177,396,187

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

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

Interest income earned from cash in banks and cash equivalents amounted to ₱1.26 million and ₱0.39 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

6. Accounts and Other Receivables

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade receivables	₱300,328,409	₱771,395,524
Receivable from related parties (Note 21)	10,246,936	5,808,461
Advances to employees	2,234,910	4,764,040
Others	16,201,038	13,693,032
	329,011,293	795,661,057
Less: Allowance for impairment loss	265,481,668	265,024,372
	₱63,529,625	₱530,636,685

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI) and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As at September 30, 2019 and December 31, 2018, the Group's receivables from GTI amounted to ₱2.35 million and ₱279.13 million, respectively, which comprise 42% and 36%, respectively, of the total trade receivables (Note 26).

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

Advances to employees mainly pertain to advances which are subject to liquidation.

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

The table below shows the movements in the provision for impairment losses of trade receivables:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
At beginning of year	₱265,024,372	₱118,853,129
Provisions (Note 18)	486,711	166,083,098
Write-off	–	(16,053,400)
Recovery	–	454,785
Translation adjustments	(29,415)	(4,313,240)
	₱265,481,668	₱265,024,372

7. Contract Balances

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Contract assets	₱1,283,079	₱9,748,084
Contract liabilities	49,963,864	44,498,497

Contract assets are initially recognized for revenues earned from custom development as receipt of consideration is conditional on successful completion of proportion of work. Upon completion of performance obligation and acceptance by the customer, the amount recognized as contract assets are reclassified to trade receivables.

Contract liabilities consist of collections from customers under custom development services which have not qualified for revenue recognition.

8. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period	₱475,000	₱6,380,000
Collections during the period	–	(6,000,000)
Unrealized gain on financial assets at FVOCI	–	95,000
	₱475,000	₱475,000

The rollforward analysis of net unrealized loss on financial assets at FVOCI follows:

	September 30	
	2019 (Unaudited)	2018 (Unaudited)
Balance at beginning of period	(₱44,219,956)	(₱70,000)
Unrealized gain on financial assets at FVOCI	–	–
	(₱44,219,956)	(₱70,000)

Unrealized loss on financial assets at FVOCI is recognized under “Other comprehensive income” in the consolidated statements of comprehensive income.

Carrying amount of the investments in financial assets at FVPL and financial assets at FVOCI as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Quoted shares		
Club Punta Fuego	₱475,000	₱475,000
Unquoted equity investment		
Zowdow Inc.	44,244,956	44,244,956
Less: Unrealized loss on financial assets at FVOCI	(44,244,956)	(44,244,956)
	–	–
Unquoted debt investments		
MatchMe Pte. Ltd.	–	–
Altitude Games Pte. Ltd.	–	–
Einsights Pte. Ltd.	–	–
Pico Candy Pte. Ltd.	–	–
	₱475,000	₱475,000

The quoted shares are categorized under the Level 2 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 3 (Note 26).

Quoted equity investments

Quoted equity instruments consist of investment in golf club shares.

Unquoted equity investments

In April 2015, the Group acquired 666,666 million shares of Series A Preferred Stock of Zowdow Inc. (“Zowdow”), formerly Quick.ly, Inc. (“Quick.ly”), at a purchase price of \$1.50 per share for a total investment of US\$999,999 or ₱44.24 million. As at September 30, 2018 and December 31, 2017, the Group holds a 3.56% ownership of Zowdow on a fully-diluted basis.

Fair value of unquoted equity investments was determined using prices from recent sales at arm’s length transaction. No unrealized gain or loss was recognized during the year for these investments (Note 26).

Unquoted debt investments

MatchMe Pte. Ltd.

On November 2, 2015, the Group acquired a convertible promissory note for US\$300,000 (₱14.06 million) issued by MatchMe Pte. Ltd. (“MatchMe”), an associate of the Group based in Singapore (Note 10). On February 11, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$500,000 (₱23.89 million). On October 7, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$300,000 (₱14.55 million).

Altitude Games Pte. Ltd.

On January 19, 2016, the Group purchased a convertible promissory note for US\$400,000 (₱19.26 million) issued by Altitude Games Pte. Ltd. (“Altitude Games”), an associate of the Group. On September 21, 2016, the Group acquired additional convertible promissory note for US\$200,000 (₱9.60 million) issued by Altitude Games.

Einsights Pte, Ltd.

On September 30, 2015, the Group purchased a convertible promissory note for US\$500,000 (₱23.48 million) issued by Einsights Pte, Ltd. (“Einsights”), a Singapore-based technology solutions provider with operations in Singapore, Vietnam, Hong Kong, India, Australia, Canada and Switzerland.

Social Light Inc.

On December 13, 2017, the Group acquired a convertible promissory note for ₱6.00 million issued by Social Light, Inc. (“Social Light”), a local solutions provider in the marketing industry and was founded in 2013.

Pico Candy Pte. Ltd.

In August 2013, the Group invested in Pico Candy Pte. Ltd.'s convertible bonds amounting to SG \$0.10 million, which is equivalent to P3.60 million. Pico Candy Pte. Ltd. operates a digital sticker distribution platform. It was founded in 2013 and is based in Singapore.

9. **Other Current Assets**

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Creditable withholding tax	P 21,515,760	P18,176,998
Prepaid Income Tax	1,278,753	
Input VAT	14,107,481	13,740,143
Prepaid expenses	4,137,148	10,219,745
Refundable deposits	1,462,367	11,437,282
Deferred input VAT	2,960,757	3,494,984
Inventories	4,973,411	832,285
	P50,435,677	P57,901,437

Creditable withholding taxes pertain to prepaid taxes recognized at the amount withheld at source upon payment, and can be carried forward and claimed as tax credit against income tax due.

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services.

Prepaid expenses mainly pertain to advances to contractors, deposits and advances to rentals and prepaid professional fees.

Deferred input VAT represents input VAT related to unpaid balances for the services availed by the Group. These will be recognized as input VAT and applied against output VAT upon payment. Any remaining balance is recoverable in future periods.

Inventories include purchases of goods to be sold. These are carried at cost.

10. **Investments in Associates**

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cost		
Balance at beginning and end of period	P577,561,081	P575,584,063
Additions during the period	–	1,977,018
	577,561,081	577,561,081
Equity in net loss during the period		
Balance at beginning of period	(133,091,435)	(80,102,968)
Share in net loss during the period	(4,508,055)	(52,988,467)
Balance at end of period	(137,599,490)	(133,091,435)

(Forward)

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cumulative translation adjustment		
Balance at beginning of period	11,525,824	20,181,846
Movement during the period	–	(8,656,022)
Balance at end of period	11,525,824	11,525,824
	P451,487,415	P455,995,470

The equity in cumulative translation adjustments represents exchange differences arising from the translation of financial statements of the foreign operations, whose functional currency is other than Philippine Peso.

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

	Percentages of Ownership		Carrying Amounts	
	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Micro Benefits Limited	23.53%	23.53%	P367,056,621	P377,307,980
MatchMe Ltd.	28.59	28.59	43,640,526	43,709,443
Altitude Games Pte. Ltd	21.78	21.78	25,428,210	24,339,262
PT Sembilan Digital Investama	49.00	49.00	15,362,058	10,638,785
Altitude Games Inc.	21.17	21.17	–	–
			P451,487,415	P455,995,470

Micro Benefits Limited

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

MatchMe Pte. Ltd.

On March 30, 2015, the Parent Company acquired 1,000,000 ordinary shares of MatchMe Pte. Ltd. (“MatchMe”), an international game development company based in Singapore, for a total consideration amounting to P60.47 million.

Altitude Games Pte. Ltd.

On December 11, 2014, the Parent Company acquired 11.76% stake for 13.33 million ordinary shares in Altitude Games Pte. Ltd. (“Altitude Games”), a Singaporean IT company engaged in computer game development and publishing. The Parent Company paid P17.98 million as consideration for the said investment.

On the same date, Mr. Nico Jose S. Nollo, a stockholder, assigned its 11.36 million ordinary shares representing 10.02% ownership in Altitude Games pursuant to the Deed of Assignment with the Parent Company. Accordingly, the Parent Company recognized a payable to a stockholder amounting to P15.24 million from the said assignment which was subsequently paid in 2015.

As at September 30, 2019 and December 31, 2018, the Parent Company owns 21.78% ownership in Altitude Games resulting from the said acquisitions. The Parent Company acquired a total of 24.69 million shares with par value of US\$0.01 per share for a total consideration of US\$740,800 or US\$0.03 per share.

PT Sembilan Digital Investama

On March 26, 2015, the Parent Company acquired 147 shares representing 49% shareholdings in PT Sembilan Digital Investama (SDI) amounting to P10.83 million. The acquisition gave the Parent Company access to PT Ninelives Interactive (“Ninelives”), a mobile content and distribution company in Indonesia, which SDI owns.

Altitude Games Inc.

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

As at September 30, 2019 and December 31, 2018, there are no capital commitments relating to the Group’s interests in its associates.

The Parent Company considers an associate with material interest if its net assets exceed 5% of its total consolidated net assets of the Group as of reporting period and considers the relevance of the nature of activities of the entity compared to other operations of the Group. There are no significant restrictions on the Parent Company’s ability to use assets and settle liabilities of the Group.

11. Property and Equipment

The Group acquired property and equipment amounting to ₱15.25 million during the nine-month period ended September 30, 2019. Depreciation expense amounted to ₱37.54 million and ₱23.09 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

12. Intangible Assets

This account consists of:

September 30, 2019

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Cryptocurrencies	Total
Cost						
At beginning of period	₱2,544,617,520	₱1,077,809,700	₱208,845,306	₱17,378,812	₱5,484,591	₱3,854,135,929
Additions	–	–	1,232,247	–	1,269,615	2,501,862
Disposals	(540,147,917)	(1,077,809,700)	(109,402,339)	(12,228,500)	(2,685,745)	(1,742,274,201)
Translation adjustment	–	–	–	–	1,255,722	1,255,722
At end of period	2,004,469,603	–	100,675,214	5,150,312	5,324,183	2,115,619,312
Accumulated amortization						
At beginning of period	–	–	87,763,575	8,593,303	–	96,356,878
Amortization (Note 17)	–	–	25,390,429	1,716,438	–	27,106,867
Disposal	–	–	(51,017,273)	(6,987,713)	–	(58,004,987)
At end of period	–	–	62,136,731	3,322,028	–	65,458,759
Allowance for impairment	144,855,369	–	–	–	–	144,855,369
Net Book Value	₱1,859,614,233	₱–	₱38,538,483	₱1,828,284	₱5,324,183	₱1,905,305,184

December 31, 2018

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Cryptocurrencies	Total
Cost						
At beginning of period	₱2,544,617,520	₱1,077,809,700	₱197,646,597	₱17,378,812	₱-	₱3,837,452,629
Additions	-	-	18,609,327	-	184,527,714	203,137,041
Disposals	-	-	(7,410,618)	-	(176,529,320)	(183,939,938)
Revaluation surplus	-	-	-	-	(2,513,803)	(2,513,803)
At end of period	2,544,617,520	1,077,809,700	208,845,306	17,378,812	5,484,591	3,854,135,929
Accumulated amortization						
At beginning of period	-	-	57,461,907	6,110,616	-	63,572,523
Amortization (Note 17)	-	-	34,592,265	2,482,687	-	37,074,952
Disposals	-	-	(4,290,597)	-	-	(4,290,597)
At end of period	-	-	87,763,575	8,593,303	-	96,356,878
Allowance for impairment	144,855,367	-	-	-	-	144,855,367
Net Book Value	₱2,399,762,153	₱1,077,809,700	₱121,081,731	₱8,785,509	₱5,484,591	₱3,612,923,684

Goodwill

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

Customer relationship

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

Developed software

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

Leasehold rights

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

Cryptocurrencies

Cryptocurrencies pertain to units of Bitcoin held by the Group as at September 30, 2019.

The fair value of cryptocurrencies was determined using quoted market prices in active markets categorized under Level 1 of fair value hierarchy. As at September 30, 2019 and December 31, 2018, the fair value of Bitcoin is valued at USD3,742.70 per unit. For the nine-month period ended September 30, 2019 and for the year ended December 31, 2018, unrealized loss amounting to nil and ₱2.55 million, respectively, was recognized as a result of revaluation of cryptocurrencies.

During the nine-month periods ended September 30, 2019 and 2018, the Group sold cryptocurrencies with cost amounting to ₱2.69 million and nil, respectively. The Group recognized "Loss from sale of cryptocurrencies" and "Foreign exchange gain" under "Other income (charges)" amounting to ₱0.19 million and ₱0.45 million, respectively (see Note 19).

The amortization expense of intangible assets recognized in "Depreciation and amortization" under "Cost of services" in the consolidated statements of comprehensive income amounted to ₱18.18 million and ₱16.31 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 17).

13. Accounts and Other Payables

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Payable to related parties (Note 21)	₱104,866,559	₱104,026,002
Trade payables	120,048,756	179,196,897
Accrued expenses	18,414,832	42,658,546
Nontrade payables	54,754,137	55,364,501
Taxes payable	11,274,024	14,869,140
Deferred output VAT	1,498,447	42,673,696
Others	200,519,865	215,733,365
	₱511,376,620	₱654,522,147

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

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

Nontrade payables include proceeds received by ODX under the Share and Token Allocation Agreement which grants the investor rights to certain shares of ODX and internally generated tokens in the future depending on the happening of certain events prior to termination of the agreement.

Taxes payable include output VAT after application of available input VAT and expanded withholding tax on payment of suppliers and employees' compensation which are settled within one year.

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

Others consist of statutory payables to SSS, Philhealth and HDMF. This account also includes provision relating to the Token Pre-Sale Agreements ("PSA") entered into by Group, through ODX, with various investors for the sale of ODX tokens. These are noninterest-bearing and are normally settled within one year.

14. Loans Payable

This account pertains to short-term, unsecured and interest bearing 30- to 180-day term loans entered into by the Group with different local banks and non-banks, with interest rates of 4.00% to 7.60% and 4.00% to 5.8125% per annum in 2019 and 2018, respectively.

The rollforward analysis of this account follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period	₱358,741,481	₱377,419,000
Availments of loans	–	317,741,455
Payment of loans	(304,233,507)	(336,418,974)
	₱54,507,974	₱358,741,481

Interest expense recognized in the consolidated statements of comprehensive income during the nine-month periods ended September 30, 2019 and 2018 amounted to ₱30.57 million and ₱17.05 million, respectively (see Note 19).

There were no undrawn loan commitments, transaction costs and interest expenses capitalized as at September 30, 2019 and December 31, 2018.

15. Other Current Liabilities

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Dividends payable	₱165,151	₱63,163,332
Finance lease liability – current	588,888	589,704
	₱754,039	₱63,753,036

Dividends payable pertain to amount payable to the previous stockholders of Seer Technologies and Yondu for dividends declared before the Parent Company acquired shares in the subsidiaries.

16. Service Income

Service income, amounting to ₱853.20 million and ₱817.84 million for the nine-month periods ended September 30, 2019 and 2018, respectively, pertain to revenues earned from mobile consumer products and services, enterprise services and knowledge process outsourcing rendered by the Group to its major customers. Revenue from these segments are recognized at a point in time, except for revenues from Custom Development included under enterprise services which are recognized over time.

17. Cost of Services

Cost of services for the nine-month periods ended September 30, 2019 and 2018 consists of:

	For the nine-month period ended		For the three-month period ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Salaries, wages and employee benefits	₱490,918,991	₱473,379,106	₱141,523,020	₱158,882,915
Segment fee and network costs	66,062,166	29,210,901	7,710,163	10,615,781
Web hosting	34,247,170	24,328,423	25,472,044	7,598,915
Depreciation and amortization	27,347,432	23,651,878	9,017,514	6,721,034
Outsourced services	26,777,238	97,401,217	11,017,375	25,408,383
Consultancy fees	5,040,026	12,686,004	1,532,244	1,861,931
Rent (Note 20)	3,459,561	6,799,535	1,072,997	1,457,367
Utilities	2,019,564	2,062,162	600,575	704,242
Royalty fees	1,762,597	22,637,519	819,293	(435,248)
Commission	161,185	86,405	158,633	-
Prizes and winnings	16,499	93,080	-	-
Others	4,927,601	7,973,601	1,223,673	3,658,664
	₱662,740,030	₱700,309,831	₱200,147,531	₱216,473,984

18. General and Administrative Expenses

General and administrative expenses for the nine-month periods ended September 30, 2019 and 2018 consists of:

	For the nine-month period ended		For the three-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Salaries, wages and employee benefits	₱155,936,745	₱183,367,670	₱44,170,220	₱61,775,378
Depreciation and amortization	37,301,475	22,210,021	9,865,687	7,787,046
Professional fees	29,958,612	11,764,076	19,790,878	1,098,963
Outsourced services	17,224,986	20,315,083	2,885,098	3,996,761
Taxes and licenses	10,740,282	20,149,908	3,056,718	3,731,329
Utilities	9,953,262	12,558,525	3,260,641	3,391,351
Rent (Note 20)	7,281,656	29,464,915	3,282,011	10,132,093
Transportation and travel	5,273,508	6,172,221	882,866	2,147,952
Dues and subscription	4,962,774	5,193,980	1,469,013	1,522,366
Repairs and maintenance	4,692,301	8,957,147	1,158,884	2,675,907
Entertainment, amusement and recreation	3,758,906	4,612,971	1,411,081	1,144,977
Supplies	3,219,119	3,097,542	1,047,456	935,582
Insurance	1,157,410	1,596,428	345,594	676,425
Advertising	1,012,067	5,187,237	379,230	594,914
Seminars and trainings	726,760	817,234	292,302	253,932
Provision for impairment loss (Note 6)	486,711	1,623,565	(813,500)	1,625
Marketing and promotions	230,220	3,849,117	76,488	678,287
Miscellaneous	23,322,599	6,614,658	10,205,778	1,468,779
	₱317,239,393	₱347,552,298	₱102,766,445	₱104,013,667

19. Other Charges (Income) - Net

This account consists of:

	For the nine-month period ended		For the three-month period ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss on sale of subsidiary	₱480,975,029	₱-	₱480,975,029	₱-
Interest expense	34,844,247	20,878,797	16,171,830	₱ 12,023,645
Foreign exchange losses	3,015,690	9,639,234	1,219,811	12,331,202
Bank charges	697,927	3,005,087	185,214	2,146,358
Loss on sale of cryptocurrencies	188,067	(3,548,250)	-	-
Interest income	(1,439,337)	(388,309)	(1,254,310)	(305,623)
Other income	(4,281,764)	(25,770,138)	(3,572,601)	(5,928,239)
	₱513,999,859	₱3,816,421	₱493,724,973	₱20,267,343

Interest expense pertains to interest incurred from outstanding loans payable.

20. Operating Lease Commitments

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

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱10.74 million and ₱36.26 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Notes 17 and 18).

As at September 30, 2019 and December 31, 2018, the future minimum lease payments within one year under noncancellable operating leases amounted to ₱38.55 million and ₱40.02 million, respectively.

21. Related Party Transactions

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

Terms and conditions of transactions with related parties

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

Details of transactions with related parties and their outstanding payables to a related party as at September 30, 2019 and December 31, 2018 follow:

	Terms	Conditions	Outstanding Balance			
			September 30, 2019		December 31, 2018	
			Receivable	Payable	Receivable	Payable
Associate						
Cost of services	Noninterest-bearing	Unsecured	₱–	₱–	₱–	₱19,208
Advances	Noninterest-bearing	Unsecured, no impairment	10,246,936	–	5,808,461	–
			10,246,936	–	5,808,461	19,208
Stockholders						
Payable to directors and officers (a-b)	Interest bearing	Unsecured	–	253,281,309	–	102,421,544
Payable to directors and officers (c)	Noninterest-bearing	Unsecured	–	1,585,250	–	1,585,250
			–	254,866,559	–	104,006,794
			₱10,246,936	254,866,559	₱5,808,461	₱104,026,002
Amount / Volume						
			September 30, 2019 (Nine Months)	September 30, 2018 (Nine Months)	September 30, 2019 (Three Months)	September 30, 2018 (Three Months)
Associate						
Cost of services			₱–	₱–	₱–	₱–
Advances			4,438,475	–	388,959	–
			4,438,475	–	388,959	–
Stockholders						
Payable to directors and officers			154,279,021	2,525,525	154,279,021	1,082,882
Advances			–	2,544,547	–	–
			₱154,279,021	₱5,070,072	₱154,279,021	₱1,082,882

Associates:

- The Parent Company gained exclusive rights to distribute several of Altitude Games Singapore’s applications. In return, the Parent Company shall pay Altitude Games a certain percentage of the revenues generated from such applications.

For the nine-month periods ended September 30, 2019 and 2018, the Group recognized “Outsourced services” under “Cost of services” amounting to nil in relation to the aforementioned transaction. As at September 30, 2019 and December 31, 2018, payable to Altitude Games amounted to nil and ₱0.02 million, respectively.

- b. In 2017, the Parent Company entered into a US\$100,000 noninterest-bearing short-term loan agreement with Altitude Games for working capital purposes. As at September 30, 2019 and December 31, 2018, receivable from Altitude Games amounted to ₱5.26 million and ₱4.99 million, respectively.
- c. The Parent Company made payments on behalf of SDI for its outsourced services. As at September 30, 2019 and December 31, 2018, outstanding balance amounted to nil and ₱0.55 million, respectively.

Stockholders:

- a. In 2017, the Parent Company entered into a loan agreement with its directors amounting to US\$1,945,758 or ₱97.15 million subject to 5% interest rate per annum. The Group recognized interest expense amounting to ₱2.90 million under “Other income (charges)” in its consolidated statements of comprehensive income. As at September 30, 2019, outstanding loans and interest payable pertaining to this transaction amounted to ₱97.45 million and ₱1.79 million, respectively.
- b. On April 29, 2019, the Parent Company entered into a loan agreement with its directors amounting to ₱150.00 million subject to 5.50% interest rate per annum. The Group recognized interest expense amounting to ₱1.38 million under “Other income (charges)” in its consolidated statements of comprehensive income. As at September 30, 2019, outstanding loans and interest payable pertaining to this transaction amounted to ₱150.00 million and ₱1.38 million, respectively.
- c. Payable to directors and officers also pertain to directors’ fees. Outstanding payable amounted to ₱1.59 million as at September 30, 2019 and December 31, 2018.

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱35.19 million and ₱49.95 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

22. Income Taxes

Provision for (benefit from) income tax for the nine-month periods ended September 30, 2019 and 2018 consists of:

	September 30	
	2019	2018
	(Unaudited)	(Unaudited)
Current	₱29,413,302	₱ 22,726,182
Deferred	(6,659,074)	(83,498,533)
Final	86,864	33,077
	₱22,841,092	(₱60,739,274)

23. Business Combinations and Acquisition of Noncontrolling Interests

Business Combinations

Art of Click Pte. Ltd.

On October 6, 2016, the Parent Company executed a Share Purchase Agreement for the acquisition of 100% shares of Art of Click Pte. Ltd. (“Art of Click”) for an aggregate consideration of

₱1.40 billion in cash and in Parent Company's shares. Art of Click is a Singaporean start-up firm established in 2011 that specializes on mobile marketing solutions for advertisers, publishers, app developers, and other operators. Its key markets include Japan, Korea, Hong Kong, Taiwan, Southeast Asia, North America and Europe.

The Group considers the acquisition an opportunity to grow its mobile consumer services by increasing its content offering.

The cash consideration consists of (1) an Upfront Payment to the Sellers amounting to US\$2,797,106 (₱135,379,930) and (2) cancellation of employee stockholder options through Parent Company's subscription to one ordinary share in the capital of AOC for US\$2,202,894 (₱106,620,070). This was used to pay the AOC's Employee Stock Ownership Plan ("ESOP") shareholders.

The Xurpas shares to be issued to the Sellers consist of (1) an Upfront Payment amounting to US\$19,451,739 payable in Xurpas shares to the Sellers on the acquisition date, (2) Installment Payment payable to the Sellers in Xurpas shares one year after the closing date and every year thereafter until three years after the closing date, and (3) a Deferred Purchase Consideration which shall be subject to a net income after tax floor per year that AOC has to meet as a condition precedent to the entitlement of the Sellers to the Deferred Purchase Consideration and payable in three (3) tranches. The aggregate amount of Deferred Payment Consideration for a three year deferred payment period shall in no case be greater than US\$13,962,725. In the finalization of the purchase price, the parties have clarified that the Deferred Purchase Consideration shall be fixed at US\$13,962,725 and shall not be subject to the performance metrics of AOC, and such is intentionally part of the original consideration. Accordingly, the Deferred Purchase Consideration was considered as part of the acquisition cost in the final purchase price.

The number of Xurpas shares to be issued at each tranche shall be determined using the average market value of Xurpas common shares fifteen (15) days before and fifteen (15) days after the closing date or each commitment date, as applicable, agreed to by the parties.

The Installment Payment payable and Deferred Purchase Consideration in the next three years amounting to ₱760.69 million was initially recognized under "Payable to former shareholders of a subsidiary" in the consolidated statements of financial position. These were measured at its fair value as at acquisition date using an assumed discount rate of 11.55%. In 2016, interest expense and foreign exchange loss amounting to ₱21.96 million and ₱22.78 million, respectively, were recognized in "Other income (charges)" in the consolidated statements of comprehensive income and is reflected in the net income attributable to the equity holders of the Parent Company. As of December 31, 2016, the outstanding payable to former shareholders of a subsidiary amounted to ₱805.43 million.

Included in the Share Purchase Agreement is a call option granting the Sellers an option exercisable within fifty one (51) months following the Closing Date and only upon the occurrence of a Call Option event to purchase from the Parent Company their respective proportionate share in the Sale Shares. This was subsequently waived.

In June 2017, the Parent Company entered into an agreement to reacquire the 53,298,242 common shares Upfront Payment issued at acquisition date to Emmanuel Michel Jean Allix ("Allix"), a former shareholder of AOC, for a consideration of US\$532,983 or ₱26.65 million (see Note 24). On the same date, amendments were made to the share purchase agreement with Allix which (a) resulted in the payment of US\$7.24 million or ₱358.50 million, (b) changed the manner of payment of the Installment Payment payable and Deferred Purchase Consideration from being partly in cash and Xurpas shares to solely in cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. The additional payment and the buyback of the common shares are linked transactions and in substance is accounted for as an equity transaction for accounting purposes. Based on the agreement, only the ₱26.65 million is presented as treasury shares while the remaining amount of ₱358.50 million is presented under equity reserve in the consolidated statements of financial position. The change from being payable in three years to being payable within the year resulted in the acceleration of the accretion of unamortized interest expense amounting to ₱26.00 million.

In October 2017, the Parent Company entered into an agreement to amend the share purchase agreement with Wavemaker Labs Pte. Ltd. (“Wavemaker”), a former shareholder of AOC, which provides for (a) the adjusted purchase price, (b) the change in manner of payment for the Installment Payment and Deferred Consideration pertaining to Wavemaker from being payable in Xurpas shares to cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. To implement these amendments, the Parent Company made a placement and subscription transaction involving 67,285,706 Xurpas listed shares of existing shareholders by way of a block sale through the facilities of the PSE in 2018. The amendments resulted in an additional payable to Wavemaker amounting to US\$3.01 million or ₱153.96 million which was recognized as a loss under “Other income (charges)” in the consolidated statements of comprehensive income. The change in the timing of the payment resulted in an acceleration of the accretion of unamortized interest expense amounting to ₱4.92 million. The amendments were ratified by the BOD on February 22, 2018.

The 16,641,244 common shares initially issued to Wavemaker representing the Upfront Payment shall be placed by Wavemaker in an escrow agent who is authorized to sell these shares after these are listed. The allocation of the proceeds from the sale of these shares will be determined in the future subject to certain conditions.

In October 2017, Allix and Wavemaker executed a waiver of the second and third tranches of the Deferred Purchase Consideration. Since the waiver is not considered as a measurement period adjustment as allowed under PFRS 3 to adjust the recorded acquisition cost of the Parent Company’s investment, the extinguishment of the liability amounting to US\$7.11 million or ₱364.01 million is recognized as a gain under “Other Charges - Net” in the consolidated statements of comprehensive income. The Sellers also waived their call option on the shares.

In 2017, interest expense and foreign exchange losses amounting to ₱61.63 million and ₱26.59 million, respectively, were recognized in “Other income (charges)” in the consolidated statements of comprehensive income and is reflected in the net income attributable to the equity holders of the Parent Company. As of December 31, 2017, the remaining payable to former shareholders of a subsidiary amounted to ₱244.43 million.

The net assets recognized in the December 31, 2016 financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the intangible assets owned by AOC which was done by an appraiser accredited by the SEC.

The purchase price allocation has been prepared on a preliminary basis as the fair value of intangible asset (i.e., technology) is being finalized. The following are the preliminary fair values of the identifiable assets and liabilities assumed:

Assets	
Cash	₱205,580,070
Receivables	125,285,313
Property and equipment	634,945
Intangible asset	61,508,895
Other assets	2,197,610
	395,206,833
Liabilities	
Accounts and other payables	₱270,986,228
Income tax payable	20,099,967
Deferred tax liability	18,452,669
	309,538,864
Total net assets acquired	85,667,969
Goodwill	1,856,808,730
Acquisition cost	₱1,942,476,699

In October 2017, the valuation was completed and the acquisition date fair value of the total net assets acquired was determined to be ₱85.67 million, an increase of ₱43.06 million over the provisional value of ₱42.61 million. The 2016 comparative information was restated to reflect the adjustments to the provisional amounts. As a result, an intangible asset for AOC's developed software amounting to ₱61.51 million was recognized. The Deferred Purchase Consideration amounting ₱544.29 million was included as acquisition cost. Total goodwill arising from the acquisition amounted to ₱1,856.81 million. The 2016 comparative income statements were also restated to reflect the increase in amortization expense, additional accretion and interest and foreign exchange adjustments, with a net effect of ₱40.06 million decrease in the 2016 consolidated net income and net income attributable to equity holders of the Parent Company.

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected. The deferred tax liability represents the tax effect of the fair value adjustments on the intangible asset.

The fair value of the intangible asset was based on net present value of future cash flows using the "Relief from Royalty" method. The valuation has not been completed by the date the 2016 consolidated financial statements were approved for issue by the BOD.

The consideration for the acquisition amounting to ₱1.94 billion partly involves cash and Xurpas shares payable to the Sellers.

From the date of acquisition on October 6, 2016, the Group's share in the revenue and net income of AOC amounted to ₱477.95 million and ₱120.34 million, respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue and total net income would have been ₱2,120.93 million and ₱334.01 million, respectively.

Cash outflow related to the acquisition follows:

Cash acquired from AOC	₱205,580,070
Cash paid	242,000,000
<u>Net cash outflow</u>	<u>₱36,419,930</u>

Storm Technologies, Inc. ("Storm")

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

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

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

In 2016, the Parent Company finalized its purchase price allocation.

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

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

Other noncurrent asset	382,769
	139,926,434
Liabilities	
Accounts and other payables	20,965,139
Deferred tax liability	1,228,832
Loans payable	6,628,000
	28,821,971
Net assets	111,104,463
Non-controlling interests in Storm	54,376,599
Total net assets acquired	56,727,864
Goodwill	134,161,689
Acquisition cost	P190,889,553

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

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Cash outflow related to the acquisition follows:

Cash acquired from Storm	P110,123,616
Cash paid	135,366,761
Net cash outflow	P25,243,145

From February 26 to December 31, 2015, the Group's share in revenue and net loss of Storm amounted to P80.27 million and P28.81 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been P927.83 million, while the Group's net income would have been P226.47 million.

Seer Technologies Inc. ("Seer") and subsidiary

On June 25, 2015, the Parent Company acquired 70,000 shares representing 70% stake holdings in Seer at a price of P18.00 million. Codesignate is a 75% owned subsidiary of Seer.

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

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

In 2016, the Parent Company finalized its purchase price allocation.

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

Assets	
Cash	P3,706,340
Receivables	29,735,813
Other current assets	7,297,243
Property and equipment	3,381,984
Intangible assets	1,054,205
Deferred tax asset	5,562,638

Other noncurrent asset	2,886,447
	<u>53,624,670</u>
Liabilities	
Accounts and other payables	22,014,409
Loans payable	13,998,370
Pension liability	6,959,000
Finance lease liability	3,906,890
Deferred tax liability	316,262
	<u>47,194,931</u>
Net assets	6,429,739
Non-controlling interests in Seer	1,928,922
Total net assets acquired	4,500,817
Goodwill	13,499,183
Acquisition cost	<u>₱18,000,000</u>

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

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Cash outflow related to the acquisition follows:

Cash acquired from Seer	₱3,706,340
Cash paid	18,000,000
Net cash outflow	<u>₱14,293,660</u>

From June 26 to December 31, 2015, the Group's share in revenue and net income of Seer amounted to ₱41.02 million and ₱5.27 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱954.25 million, while the Group's net income would have been ₱223.72 million.

Yondu Inc. ("Yondu")

On September 16, 2015, the Parent Company acquired 22,950 shares of common stock in Yondu, a content developer and provider of mobile value-added services and information technology services for a total consideration of ₱900.00 million. 5,000 shares out of the 22,950 shares were from unissued shares of Yondu while 17,950 shares were purchased from GTI. Purchase price of unissued shares and shares previously held by GTI amounted to ₱230.00 million and ₱670.00 million, respectively. The purchase resulted to a 51% ownership by the Parent Company in Yondu.

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

A financial liability amounting to ₱853.18 million was recognized in the consolidated financial statements of financial position for the redemption obligation related to the written put option over the shares held by GTI. The liability was recognized initially at the present value of the redemption price at acquisition date.

In 2016, the Parent Company finalized its purchase price allocation.

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

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

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

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

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

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

Cash outflow related to the acquisition follows:

Cash acquired from Yondu	₱175,110,666
Cash paid	900,000,000
Net cash outflow	<u>₱724,889,334</u>

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

Acquisition of Noncontrolling Interests

Xeleb Technologies Inc. (Xeieb Tech)

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 35.00% interest in Xeieb Tech. The acquisition of the 35.00% interest in Xeieb Tech made it a wholly-owned subsidiary of the Parent Company. The acquisition resulted to recognition of equity reserves amounting to ₱41.49 million (see Note 24).

Xeleb Inc. (Xeleb)

On August 22, 2016, Xeleb Tech acquired 3,349,996 shares or 67.00% majority stake in Xeleb from the Parent Company at ₱1.00 per share or ₱3.35 million. On the same date, Xeleb acquired the remaining 33.00% stake in Xeleb from various individuals for a total consideration of ₱1.65 million. This resulted in 100.00% ownership interest of Xeleb Tech in Xeleb.

Xeleb Tech and Xeleb are entities under common control of the Parent Company before and after the restructuring. As a result, the acquisition was accounted for using the pooling of interests method. This transaction has no effect on the carrying amounts of the Group's assets and liabilities, but has resulted to consolidation of Xeleb's assets and liabilities into Xeleb Tech. This resulted to recognition of equity reserves amounting to ₱5.39 million (see Note 24).

Storm Technologies, Inc. (Storm)

On October 27, 2016, the Parent Company acquired additional 3,735 common shares of Storm for ₱10.00 million. This brought the Parent Company's ownership from 51.52% to 56.60% of the outstanding capital stock of Storm and there was no change in control.

24. Deconsolidated Subsidiary

On September 11, 2019, the board of directors of Parent Company approved the sale of 51% of Yondu back to GTI for a total amount of ₱501.25 million. As a result, the Group consolidated Yondu's statement of comprehensive income up to the date of sale.

Total provisional loss on disposal of Yondu recognized on the consolidated profit or loss amounted to ₱480.98 million.

Yondu operates both under mobile consumer services and enterprise services segments of the Group.

25. Equity

The details of the number of shares as at September 30, 2019 and December 31, 2018 follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Authorized shares	5,000,000,000	5,000,000,000
Par value per share	₱0.10	₱0.10
Issued shares	1,934,925,852	1,934,925,852
Treasury shares	63,985,642	63,985,642
Value of shares issued	₱193,492,585	₱193,492,585
Value of treasury shares	(₱114,403,275)	(₱115,464,275)

Capital Stock and Additional Paid-in Capital (APIC)

On May 2, 2014, the Parent Company's BOD approved the subscription and issuance of 6.75 million shares with par value of ₱1.00 per share from the unissued portion of its ₱10.00 million authorized capital stock.

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

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

from ₱10.00 million to ₱255.00 million.

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

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

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

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

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

Initial Public Offering (IPO)

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

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

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

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

Overnight Top-Up Placement

On April 9, 2016, the Parent Company issued and subscribed 77.70 million shares with par value of ₱0.10 for a total consideration of ₱1,243.20 million or ₱16.00 per share. The excess of subscription price over paid-up capital was recognized in APIC. The Parent Company incurred transaction costs incidental to the share issuance amounting to ₱44.82 million which were charged to "Additional paid-in capital" in the consolidated statements of financial position.

Installment Payment in Shares

On November 11, 2016, the Parent Company issued 69,939,486 common shares to the Sellers of AOC as payment of the upfront consideration in relation to the acquisition of 100% stakeholding in AOC (see Note 23). The excess of subscription price over paid-up capital amounting to ₱932.79 million was recognized as APIC.

On March 2, 2018, the Parent Company issued 67,285,706 common shares by way of block sale to implement the amendments in the share purchase agreement (see Note 23). The shares were issued at ₱3.80 per share.

Retained Earnings

Appropriations

On November 9, 2016, the BOD of the Parent Company approved the appropriation of unrestricted retained earnings for the buyback of its common shares up to the extent of the total allotment amounting to P170.00 million subject to the prevailing market price at the time of the share buyback.

On March 27, 2017, the BOD of the Parent Company approved the termination of the Buy-back Program adopted last November 9, 2016 appropriating an aggregate of P170.00 million. A total of P88.82 million has been used as of March 31, 2017. Accordingly, the balance of P81.18 million previously allocated for the Buy-back Program shall be released from such appropriations.

Dividends declaration

On May 10, 2016, the Parent Company's BOD approved the declaration of cash dividends of approximately P0.048 per share, or the aggregate amount of P86.27 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as at May 31, 2016 and payable to stockholders on June 23, 2016.

Equity Reserve

In 2016, the Parent Company purchased additional shares from noncontrolling interests of Xeleb, Xeleb Tech and Storm. The transactions were accounted as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of noncontrolling interests	Difference recognized within Equity
Xeleb Technologies Inc.	P45,000,000	P3,506,647	(P41,493,353)
Storm Technologies Inc.	10,002,330	2,382,396	(7,619,934)
Xeleb Inc.	1,650,000	7,038,398	5,388,398
	<u>P56,652,330</u>	<u>P12,927,441</u>	<u>(P43,724,889)</u>

In 2017, a reserve amounting to P358.50 million was recognized for the payment resulting from amendments in the Share Purchase Agreement with Allix and the acquisition of the Parent Company's own shares (see Note 23).

Treasury Stock

On November 9, 2016, the BOD of the Parent Company approved the buyback of its common shares up to the extent of the total allotment amounting to P170.00 million subject to the prevailing market price at the time of the buyback. The Parent Company commenced the program on November 14, 2016 and will end upon full usage of the approved allotment, or as otherwise may be directed by the BOD, subject to an appropriate disclosure to the SEC and PSE. As at December 31, 2016, treasury stocks acquired totaled to 10,687,400 shares and 8,532,900 shares, respectively, which amounted to P71.51 million.

In January and February 2017, the Parent Company acquired 2,154,500 shares for P17.30 million.

On March 27, 2017, the BOD of the Parent Company approved the termination of the buyback program adopted in 2016. Treasury stocks acquired under this program totaled to 10,687,400 shares amounting to P88.82 million.

On July 18, 2017, the Parent Company reacquired 53,298,242 common shares from Allix for a total amount US\$532,983 or P26.65 million (see Note 23).

On April 8, 2019, the Parent Company issued 415,000 shares taken from its treasury shares for a price of P1.23 per share.

On July 4, 2019, the Parent Company issued 475,000 shares taken from its treasury shares for a price of P1.16 per share.

Employee Stock Option Plan

The Parent Company's BOD, on January 20, 2016, and the stockholders, on May 11, 2016, approved the Employee Stock Option Plan (the Plan) of the Parent Company. Full time and regular employees of the Parent Company and those deemed qualified by the Compensation and Remuneration Committee from the names recommended by the Executive Committee are eligible to participate in the Plan. As at September 30, 2018, the Plan has been filed with and is pending approval of the SEC and PSE.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

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

The Group's sources of capital follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Capital stock	₱193,492,585	₱193,492,585
Additional paid-in capital	3,592,076,662	3,592,076,662
	₱3,785,569,247	₱3,785,569,247

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies as at September 30, 2019 and December 31, 2018.

26. Earnings Per Share

Basic earnings per share for the nine-month periods ended September 30, 2019 and 2018 were computed as follows:

	For the nine-month period ended		For the three-month period ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Net income (loss) attributable to the equity holders of the Parent Company	(₱667,037,657)	(₱186,729,490)	(₱548,753,314)	(₱49,758,995)
Weighted average number of outstanding shares	1,871,359,349	1,855,905,675	1,871,359,349	1,855,905,675
Basic earnings per share	(₱0.36)	(₱0.10)	(₱0.30)	(₱0.03)
Diluted earnings per share	(₱0.36)	(₱0.10)	(₱0.30)	(₱0.03)

Earnings per share is calculated using the consolidated net income attributable to the equity holders of the Parent Company divided by weighted average number of shares

27. Financial Instruments

Fair Value Information

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

- Cash, accounts and other receivables (except for advances to employees which are subject to liquidation), refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and

other payables (excluding “Taxes payable”, “Deferred output VAT”, and provision relating to PSA and statutory payables included as “Others”), loans payable, liability on written put option, dividends payable and finance lease liability under other current liabilities - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments, except for cash bond under other noncurrent assets. The difference between carrying amount and fair value is immaterial.¹

- Financial assets at FVOCI - Fair value is based on quoted prices published in the market.
- Financial assets at FVOCI (unquoted equity investments) - Fair values are based on the latest selling price available.
- Financial assets at FVPL (unquoted equity investments) - Fair values are based on the comparable prices adjusted for specific market factors such as nature, industry, location and market recovery rates.
- Nontrade payable - Fair values are determined using prices in such transaction which still approximate the fair values at yearend.

The fair value of financial assets at FVOCI amounting to ₱0.48 million approximate their carrying value.

Fair Value Hierarchy

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Cash, accounts and other receivables (except for advances to employees which are subject to liquidation), refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding “Deferred output VAT”, “Taxes payable” and provision relating to PSA and statutory payables included as “Others”), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities were classified under Level 3. The fair value of these financial instruments is determined by discounting future cash flows using the applicable rates of similar types of instruments plus certain spread.

Quoted financial assets at FVOCI amounting to ₱0.48 million as of September 30, 2019 and December 31, 2018 were classified under Level 2 (see Note 8).

Unquoted financial assets at FVOCI amounting to nil as of September 30, 2019 and December 31, 2018 were classified under Level 3 (see Note 8).

As at September 30, 2019 and December 31, 2018, there have been no reclassifications from Level 1 to Level 2 or 3 categories.

Financial Risk Management and Objectives and Policies

The Group’s financial instruments comprise cash, financial assets at FVPL, accounts and other receivables, AFS financial assets, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding taxes payable, deferred output VAT, and statutory payables), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities, which arise directly from operations. The main purpose of these financial instruments is to finance the Group’s operations and to earn additional income on excess funds.

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

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

There were no changes in the Group's risk management objectives and policies during the nine-month period ended September 30, 2019 and year ended December 31, 2018.

The Group's risk management policies are summarized below:

Credit Risk

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

The Group's credit risk is primarily attributable to cash (excluding "cash on hand") and receivables. To manage credit risk, the Group monitors its exposure to credit risk on a continuous basis.

The Group entered into an agreement with GTI, wherein the former will provide mobile consumer products and services and mobile enterprise services to the latter in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile consumer products and services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI's mobile phone subscribers. Mobile enterprise services, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI's mobile content products.

The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 42% and 36% of its total trade receivables as at September 30, 2019 and December 31, 2018, respectively (see Note 6).

The Group's maximum exposure to credit risk is equal to the carrying values of its financial assets as at September 30, 2019 and December 31, 2018.

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

Cash in banks, quoted financial assets at FVOCI, refundable deposits under other current assets and cash bond under other noncurrent assets - based on the nature of the counterparty and the Group's rating procedure. These are held by counterparty banks with minimal risk of bankruptcy and are therefore classified as high grade.

Accounts and other receivables (except for advances to employees which are subject to liquidation), - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

Unquoted financial assets at FVOCI are unrated.

Liquidity Risk

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

The maturity profile of the Group's financial assets and financial liabilities at September 30, 2019 and December 31, 2018 are based on contractual undiscounted payments.

As at September 30, 2019 and December 31, 2018, the Group's financial assets and financial liabilities have a maturity of less than one year.

28. Segment Reporting

The industry segments where the Group operates follow:

- Mobile consumer services - includes airtime management, content development and management and marketing and advertising solutions
- Enterprise services - includes platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services. This also includes IT staff augmentation and various enterprise solutions-based services to telecommunication companies and other companies for network and applications development
- Other services – includes consultancy services in the field of human resource management, trading in general, sourcing for and supplying of goods to import and export goods.

The following tables regarding business segment revenue and profit information for the nine-month periods ended September 30, 2019 and 2018:

2019 (Unaudited)

	Mobile consumer services	Enterprise service	Other services	Intersegment Adjustments	Consolidated
INCOME					
Service income	₱ 25,278,123	₱833,933,393	₱2,626,832	(₱8,642,063)	₱853,196,285
Sale of goods	–	–	68,813,599	–	68,813,599
	25,278,123	833,933,393	71,440,431	(8,642,063)	922,009,884
COST AND EXPENSES	(508,985,295)	(754,220,224)	(106,373,674)	332,490,935	(1,037,088,258)
Equity in net losses of associates	–	–	–	(4,508,055)	(4,508,055)
Other expenses	(20,365,067)	(2,894,164)	(4,759,300)	(485,981,327)	(513,999,859)
	(504,445,246)	42,230,055	(26,773,197)	(166,640,510)	(633,586,287)
Provision for (benefit from) income tax	(83,001)	(28,409,161)	(3,406)	5,654,472	(22,841,092)
Net loss	(₱504,155,240)	₱48,409,844	(₱39,695,949)	(₱160,986,037)	(656,427,379)
Net loss attributable to:					
Equity holders of Xurpas Inc.					₱(667,037,656)
Noncontrolling interests					10,610,279
					₱(656,427,377)

2018 (Unaudited)

	Mobile consumer services	Enterprise service	Other services	Intersegment Adjustments	Consolidated
INCOME					
Service income	₱256,136,851	₱ 605,510,861	₱5,088,920	(₱48,901,224)	₱817,835,408
Sale of goods	–	–	51,267,259	–	51,267,259
	256,136,851	605,510,861	56,356,179	(48,901,224)	869,102,667
COST AND EXPENSES	(567,457,830)	(611,096,498)	(126,293,268)	216,384,478	(1,088,463,118)
Equity in net loss of associates	–	–	–	(27,974,188)	(27,974,188)
Other income (expenses)	(21,637,795)	5,333,373	(3,721,099)	16,209,100	(3,816,421)
	(332,958,774)	(252,264)	(73,658,188)	155,718,166	(251,151,060)
Provision for (benefit from) income tax	92,841,713	1,098,164	21,904,822	(55,105,426)	60,739,273
Net income (loss)	(₱240,117,061)	₱845,900	(₱51,753,366)	₱100,612,740	(₱190,411,787)
Net income attributable to:					
Equity holders of Xurpas Inc.					(₱186,806,364)
Noncontrolling interests					(3,605,423)
					(₱190,411,787)

29. Approval of Financial Statements

The unaudited interim condensed consolidated financial statements of the Group as at September 30, 2019 and December 31, 2018 and for the nine-month periods ended September 30, 2019 and 2018 were approved and authorized for issue by the BOD on _____, 2019.

AGING OF RECEIVABLES

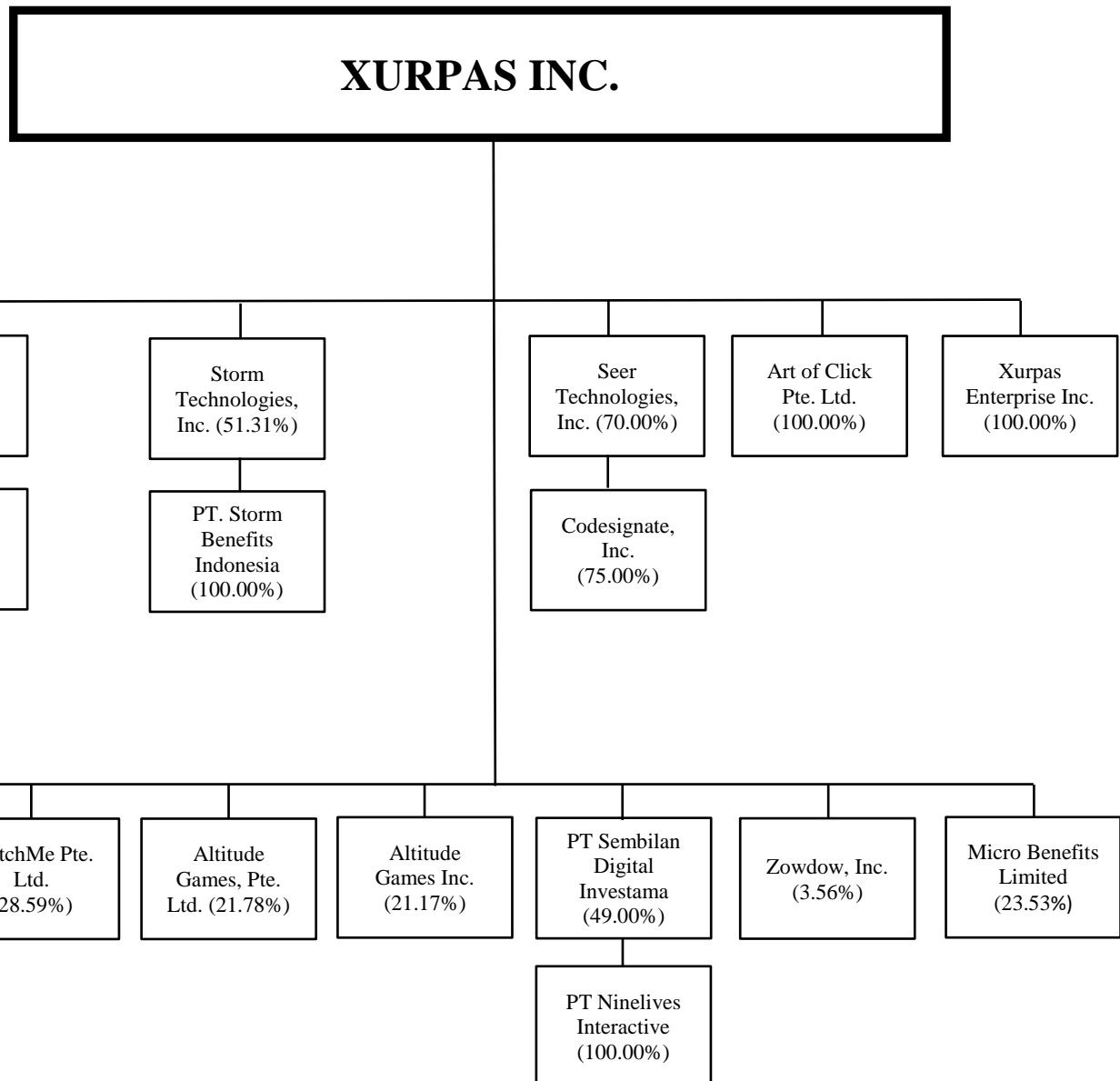
The aging analysis of accounts receivable presented per class follows:

September 30, 2019

	Current	Days past due				Total
		1 to 30 days	31 to 60 days	61 to 90 days	>90 days	
Trade receivable	₱33,192,151	₱1,409,813	₱387,311	₱1,720,684	₱263,618,450	₱300,328,409
Receivable from related parties	10,246,936	–	–	–	–	10,246,936
Advances to employees	2,234,910	–	–	–	–	2,234,910
Others	16,201,038	–	–	–	–	16,201,038
	₱61,696,036	₱1,409,813	₱ 387,311	₱ 1,720,684	₱ 263,618,450	₱329,011,293

XURPAS INC. AND SUBSIDIARIES

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



XURPAS INC. AND SUBSIDIARIES

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as of September 30, 2019:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments: Classification and Movement (2010 version)	Not early adopted		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013)	Not early adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
	version)			
	Financial Instruments (2014 or final version)		Not early adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		Not early adopted	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		Not early adopted	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		Not early adopted	
PFRS 16	Leases		Not early adopted	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12-Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23	Borrowing Costs			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
(Revised)				
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investment in Associate and Joint Venture	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	✓		
	Amendments to PAS 34: - Disclosure of information 'elsewhere in the interim financial report	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Transfer of Investment Property			✓
PAS 40 (Amended)	Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 8	<i>Scope of PFRS 2</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019		Adopted	Not Adopted	Not Applicable
	Operating Activities			
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

XURPAS INC. AND SUBSIDIARIES**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION**

Unappropriated Retained Earnings, beginning, as restated	(P378,410,874)
Less adjustments:	
Impairment loss	175,846,935
Adjustment due to adoption of PFRS 9	4,235,074
Unappropriated Retained Earnings, as adjusted, beginning	(198,328,865)
Net loss based on the Parent Company financial statement	(447,090,176)
Less: Non-actual/unrealized income net of tax	
Amount of provision for deferred tax during the year	—
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	—
Fair value adjustment (M2M gains)	—
Impairment loss	—
Net Income Actual/Realized	(447,090,176)
Less: Other adjustments	
Dividend declarations during the period	—
Reversal of appropriation for share buy-back transactions	—
Reversal of appropriation for dividend declaration	—
Appropriations during the year	—
	—
	—
Unappropriated retained earnings, end available for dividend distribution	P—

XURPAS INC. AND SUBSIDIARIES**FINANCIAL RATIOS**

Financial Ratios	September 30, 2019	December 31, 2018
A. Current ratios		
Current ratios	64%	69%
Quick ratios	56%	64%
B. Debt-to-equity ratios	38%	55%
C. Asset-to-equity ratios	135%	183%
D. Interest rate coverage ratios	(1,718%)	(2,045%)
E. Profitability ratios		
Net income margin	(72%)	(62%)
Gross margin	22%	9%
Operating margin	(58%)	(46%)
Return on total assets	(17%)	(14%)
Return on equity	(28%)	(22%)

Item 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total revenues of the Group increased by 6%, from ₱869.10 million in the first nine months of 2018 to ₱922.01 million in the first nine months of 2019.

In the first nine months of 2019, the Group saw its revenues driven by the Enterprise services which now accounts for 90% of total revenues. The segment’s revenues grew by ₱244.83 million or 42% from first nine months of 2018 vis-à-vis the same period in 2019. Other services also contributed to the growth as it increased by 27% from ₱56.16 million to ₱71.45 million over the same period.

The 42% increase in enterprise revenues was brought about by the 42% increase in Yondu’s enterprise revenues from ₱550.58 million in 1Q-3Q2018 to ₱781.94 million in 1Q-3Q2019. Likewise, Xurpas Parent’s refocus on the enterprise segment, through its subsidiary Xurpas Enterprise Inc. (XEI), has shown noteworthy results, as the first nine-months of 2019 revenues increased by 20% from ₱24.19 million in the first nine months of 2018 to ₱29.05 million.

The ongoing cost-cutting initiatives of Xurpas Parent and its subsidiaries (except Yondu) have shown results as overall cost of services decreased by 5% (from ₱700.31 million in the first nine months of 2018 to ₱662.74 million for the comparable period in 2019). On the other hand, overall, the general and administrative expenses (GAEX) decreased from ₱347.55 million in 1Q-3Q2018 to ₱317.24 million in 1Q-3Q2019 or by 9%. Isolating Yondu, the business growth of which, led to 32% increase in its cost of services and 13% in its GAEX, Xurpas Parent and the other subsidiaries in the group saw its cost of services decrease by 48%, and GAEX decrease by 32%.

On September 11, 2019, Xurpas sold its 51% shareholding in Yondu back to Globe Telecoms, for a total amount of ₱501.25 million. The divestiture of Yondu will provide the company additional liquidity, retires debt, and allows us to focus on high-value, emerging, innovative, and disruptive technologies and platforms impacting both enterprise and consumer commerce. As a result, the Group consolidated Yondu’s statement of comprehensive income up to the date of sale. Total provisional loss on disposal of Xurpas’ stake in Yondu recognized on the consolidated profit or loss amounted to ₱480.97 million. Likewise, the sale of Xurpas 51% stake in Yondu resulted into the deconsolidation of its assets, liabilities, and equity from Xurpas.

For the period, as a result of the increase in the revenues, the decrease in expenses; but also the recognition of a loss on the sale of Xurpas stake in Yondu, the resulting net loss for the first nine months of 2018 of ₱190.41 million worsened to losses of ₱656.44 million in the first nine months of 2019.

Financial Summary

Key Financial Data In PpP Millions	For the nine months ended September 30					
	2019		2018		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	827.12	90%	582.30	67%	244.83	42%
Mobile consumer services	23.45	3%	230.64	27%	(207.20)	-90%
Other services	71.45	8%	56.16	6%	15.29	27%
Total Revenues	922.01	100%	869.10	100%	52.91	6%
Cost of Services	662.74	72%	700.31	81%	(37.57)	-5%
Cost of Goods Sold	57.11	6%	40.60	5%	16.50	41%
Gross Profit	202.16	22%	128.19	15%	73.97	58%
General and Administrative Expenses	317.24	34%	347.55	40%	(30.31)	-9%
Equity in Net Loss of Associates	4.51	1%	27.97	3%	(23.47)	-84%
Other charges - net	514.00	56%	3.82	0%	510.18	13368%
Loss Before Income Tax	(633.59)	-69%	(251.15)	-29%	(382.44)	152%
Provision for (Benefit from) Income Tax	22.84	2%	(60.74)	-7%	83.58	-138%
Net Loss	(656.44)	-71%	(190.41)	-22%	(466.03)	245%
Other Comprehensive Income	(1.49)	0%	2.56	0%	(4.05)	-158%
Total Comprehensive Loss	(657.92)	-71%	(187.85)	-22%	(470.07)	250%

	September 30, 2019 Amount	December 31, 2018 Amount	Amount Change	% Increase (Decrease)
Total Assets	2,812.19	4,966.57	(2,154.37)	-43%
Total Liabilities	798.08	1,499.98	(701.90)	-47%
Total Equity	2,014.11	3,466.58	(1,452.47)	-42%

Total revenues increased by P52.91 million or 6%, from P869.10 million in the first nine months of 2018, to P922.01 million for the comparable period in 2019. Group revenues were still mainly driven by enterprise services, comprising 90% of the total revenue, compared to 67% in the first nine months of 2018.

The blended cost of services decreased by 5% from P700.31 million for the nine-month period ended September 30, 2018 to P662.74 million for the comparable period in 2019. Cost of goods sold attributable to other services was P57.11 million for the nine-month period ended September 30, 2019 compared to P40.60 million in the same period in 2018, an increase of 41% or P16.50 million.

Gross profit margins on total revenues, for the period ended September 30, 2019 was at 22%, an increase from the same period last year at 15%. Gross profit increased by 58% from P128.19 million for the first nine months of 2018 to P202.16 million for the same period in 2019.

General and administrative expenses decreased by 9%, from P347.55 million for the first nine months of 2018 to P317.24 million for the same period in 2019. Overall, the decrease in the cost of services and general and administrative expenses was mainly due to the cost reduction initiatives undertaken by the Group. However, this was softened by the increase in cost levels of Yondu, supporting its growth business segments.

The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to P4.51 million for the nine-month period ended September 30, 2019; a 84% improvement from the P27.97 million share in net loss of the associate companies for the first nine months of 2018.

Loss before income tax worsened by 152% from ₱251.15 million for the first nine months of 2018 to ₱633.59 million for the same period in 2019, mainly because of the loss on sale of Yondu shares of Xurpas, amounting to ₱480.97 million.

Provision for income taxes during the first nine months of 2019 amounted to ₱22.84 million (without the utilization of deferred tax assets), while benefit from income tax amounting to ₱60.74 million was recognized in the same period in 2018.

Overall, the net loss for the Group grew from ₱190.41 million for the first nine months of 2018 to ₱656.44 million over the same period in 2019; an increase of 245%.

Due to the sale of Xurpas stake in Yondu, the deconsolidation of Yondu's balance sheet accounts from the Group's, resulted in the decreases of Xurpas, asset, liability, and equity levels. Consolidated total assets as of September 30, 2019 amounted to ₱2,812.19 million, a decrease of 43% from ₱4,966.57 million as of December 31, 2018. Consolidated total liabilities decreased by 47% from ₱1,499.98 million as of December 31, 2018 to ₱798.08 million in September 30, 2019. Consolidated total equity decreased by 42% over the same period, from ₱3,466.58 million to ₱2014.11 million, resulting also, from the net loss incurred during the period.

Segment Financial Performance

For the 9-month period ended September 30, 2019 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	25.28	833.93	2.63	(8.64)	853.20
Revenue from sale of goods	-	-	68.81	-	68.81
Total Service Revenues	25.28	833.93	71.44	(8.64)	922.01
Operating expenses	508.99	754.22	106.37	(332.49)	1,037.09
Equity in net loss of associates	-	-	-	4.51	4.51
Other charges - net	20.37	2.89	4.76	485.98	514.00
Total Expenses	529.35	757.11	111.13	158.00	1,555.60
Operating Income (Loss)	(504.07)	76.82	(39.69)	(166.64)	(633.59)
Provision from income tax	(0.08)	(28.41)	(0.00)	5.65	(22.84)
Net Income (Loss)	(504.16)	48.41	(39.70)	(160.99)	(656.43)

For the nine-month period ended September 30, 2019, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱25.28 million, ₱504.07 million and ₱504.16 million, respectively. Enterprise services had an operating income of ₱76.82 million and net income of ₱48.41 million from revenues of ₱833.93 million. The other services segment had revenues of ₱71.44 million, ending up with an operating loss of ₱39.70 million.

Profitability

For the nine-month period ended September 30, 2019 compared with the nine-month period ended September 30, 2018

Revenues

The consolidated revenues of the Group for the nine-month period ended September 30, 2019 amounted to ₱922.01 million, an increase of 6% from ₱869.10 million the same period of the previous year.

The service income component of total revenues is comprised of the following segments:

Segment	Description	Subsidiaries
Mobile consumer services	Revenues ultimately derived from providing mobile consumer services via the Telcos, as well as mobile marketing and advertising solutions integrated in mobile casual games and platforms	<ul style="list-style-type: none">• Xurpas Parent Company• Xeleb Technologies• Yondu• Art of Click
Enterprise services	Revenues derived from the provision of mobile platform solutions to corporate and government clients, information technology (IT) staff augmentation and consultancy services, various enterprise solutions-based services to Telcos and other companies for network, platform and applications development	<ul style="list-style-type: none">• Seer• Yondu• Xurpas Enterprise
Other services	Revenues derived from services related to the proprietary platform called “Flex Benefits System” and “Ace” (formerly “Kudos”) which allows employees to convert their employee benefits to other benefits which includes sale of goods	<ul style="list-style-type: none">• Storm Technologies

Yondu operated both under mobile consumer services and enterprise services segments of the Group. However, post September 2019, there will be no contribution to revenues of the Group, by Yondu to these segments.

In PhP Millions	For the nine months ended September 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	827.12	90%	582.30	67%	244.83	42%
Mobile consumer services	23.45	3%	230.64	27%	(207.20)	-90%
Other services	71.45	8%	56.16	6%	15.29	27%
<i>Total Revenues</i>	922.02	100%	869.10	100%	52.92	6%

Revenues from enterprise services (which accounts for 90% of total revenues) increased by 42% in September 30, 2019, to ₱827.12 million from ₱582.30 million in September 30, 2018. On the other hand, revenues from the mobile consumer services segment for the nine-month period ended September 30, 2019 amounted to ₱23.45 million, a decrease of 90% from the previous year’s same period level of ₱230.64 million. This segment accounts for 3% of the total revenues. There has been no recovery on the value-added services (VAS) business

with Globe and the digital advertising business. Other services booked revenues of ₱71.45 million in the first nine months of 2019, higher by 27% from the previous level at ₱56.16 million over the same period last year.

Expenses

In PhP Millions	For the nine months ended September 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	662.74	64%	700.31	64%	(37.57)	-5%
Cost of Goods Sold	57.11	5%	40.60	4%	16.50	41%
General and Administrative Expenses	317.24	31%	347.55	32%	(30.31)	-9%
<i>Total Expenses</i>	1,037.09	100%	1,088.46	100%	(51.37)	-5%

The Group's consolidated expenses during the nine-month period ended September 30, 2019 amounted to ₱1,037.09 million, a 5% decrease from the same period of the previous year at ₱1,088.46 million. For the first nine months of 2019, cost of services accounted for the bulk of expenses, totaling ₱662.74 million or 64% of the Group's consolidated expenses. For the same period in 2018, cost of services amounted to ₱700.31 million, which also comprised 64% of overall expenses.

Cost of Services

In PhP Millions	For the nine months ended September 30					
	2019		2018		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	490.92	74%	473.38	68%	17.54	4%
Segment fee and network costs	66.06	10%	97.40	14%	(31.34)	-32%
Web hosting	34.25	5%	29.21	4%	5.04	17%
Others	71.51	10%	100.32	14%	(28.81)	-29%
<i>Total Expenses</i>	662.74	100%	700.31	100%	(37.57)	-5%

Cost of services totaling ₱662.74 million as of September 30, 2019, was mainly driven by expenses relating to salaries, wages, and employee benefits. A total decrease of ₱37.57 in cost of services was accounted from the same period in 2018 of ₱700.31 million.

Cost of Goods Sold

For nine-month period ended September 30, 2019, cost of goods sold took up 5% of the Group's consolidated expenses, amounting to ₱57.11 million. This figure was an increase of 41% from its level at ₱40.60 million in September 30, 2018. The increase in cost of goods sold was directly attributable to the increase in revenues of Storm Technologies.

General and Administrative Expenses

In PhP Millions	For the nine months ended September 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	155.94	49%	183.37	53%	(27.43)	-15%
Depreciation and amortization	37.30	12%	29.46	8%	7.84	27%
Outsourced services	17.22	5%	22.21	6%	(4.99)	-22%
Others	106.78	34%	112.51	32%	(5.73)	-5%
<i>Total Expenses</i>	317.24	100%	347.55	100%	(30.31)	-9%

General and administrative expenses relating to the Group's operations, for the first nine months of 2019 amounted to ₱317.24 million, lower by 9% compared to previous year's same period level of ₱347.55 million. Salaries, wages and employee benefits was ₱155.94 million or 49% of the total general and administrative expenses (GAEX).

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the nine-month period ended September 30, 2019, amounted to ₱4.51 million; 84% lower than the ₱27.97 million net loss for the comparable period. The decrease in equity in net loss of associates was significantly due to the net income of Ninelives and Altitude SG for the nine-month period ended September 30, 2019 and the significant reduction in the loss of MicroBenefits over the period.

Other Charges – net

For the first nine months of 2019, the Group recognized other net charges amounting to ₱514.00 million. This account mainly pertains to interest expense, foreign exchange gains and losses, and bank charges. However, the biggest component of this account is the loss on sale of Xurpas 51% shareholding in Yondu, which amounted to ₱480.97 million.

Loss before Income Tax

The Group's net loss before taxes for the nine-month period ended September 30, 2019 was ₱633.59 million. The net loss before taxes for the Group increased by 152% or ₱382.44 million from the same period ended September 30, 2018, which posted a figure of ₱251.15 million.

Provision for (Benefit from) Income Tax

Despite incurring a loss before income tax, the Group still recognized a provision for income tax for the nine-month period ended September 30, 2019 amounting to ₱22.84 million. The recognition of provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the period. These are deductible temporary differences for which no DTA are recognized since management believes that there are no sufficient taxable profits against which the DTA can be utilized. For the period ended September 30, 2019, changes in unrecognized DTA amounted to ₱36.09 million. For the nine-month period ended September 30, 2018, the Group recognized benefit from income tax amounting to ₱60.74 million.

Net Loss

The Group posted a consolidated net loss of ₱656.44 million for the nine-month period ended September 30, 2019, an increase of 245% from the previous year's same period at ₱190.41 million.

Pro-forma net loss showing a 222% increase is shown below had the Group opted not to recognize DTA in the same period in 2018:

In PhP Millions	For the nine-month period ended September 30	
	2019	2018
	Amount	Amount
Loss before income tax	(633.59)	(251.15)
Provision for income tax	22.84	(47.09)
Net Loss	(656.44)	(204.06)

Total Comprehensive Income (Loss)

As of September 30, 2019, the Group's total comprehensive loss amounted to ₱657.92 million, a decrease of 250% compared to total comprehensive loss of ₱187.85 million as at September 30, 2018.

Financial Position

As of September 30, 2019 compared to December 31, 2018

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱281.05 million as at September 30, 2019, a net increase of 58% or ₱103.66 million from consolidated cash of ₱177.40 million as at December 31, 2018. This was mainly due to the advances made by the founders to Xurpas parent company and net proceeds from the sale Xurpas stake in Yondu after settling debt obligations.

Accounts and Other Receivables

The Group's consolidated accounts and other receivables amounted to ₱63.52 million and ₱530.64 million as at September 30, 2019 and December 31, 2018, respectively, representing a decrease of ₱467.11 million. In September 30, 2019, trade receivables were valued at ₱300.33 million. However, against the total accounts receivable s of ₱329.01 million there was an allowance for impairment/doubtful accounts amounting to ₱265.48 million, resulting to the net receivables of ₱63.53 million.

Contract Asset

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

The Group's consolidated contract asset totaled ₱1.28 million as of September 30, 2019, a decrease of ₱8.47 million or 87% from its previous level on December 31, 2018 at ₱9.75 million.

Other Current Assets

The Group's consolidated other current assets totaled ₱50.44 million as of September 30, 2019, a decrease of ₱7.47 million or 13% from its previous level on December 31, 2018 at ₱57.90 million. Creditable withholding taxes, input VAT and prepaid expenses comprised majority of other current assets.

Financial assets at FVOCI

This account pertains to quoted and unquoted equity investments in Club Punta Fuego and Zowdow Inc. As at September 30, 2019, carrying value and net unrealized loss on financial assets at FVOCI recognized in the consolidated statement of financial position remained unchanged from its previous level on December 31, 2018 which amounted to ₱0.48 million and ₱44.22 million, respectively.

Investment in Associates

As of September 30, 2019, the Group's consolidated investment in associates amounted to ₱451.49 million, a 1% decrease from its figure of ₱456.00 million during December 31, 2018. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱25.43 million), MatchMe (₱43.64 million), PT Sembilan Digital Investama (₱15.36 million), and Micro Benefits Limited (₱367.06 million).

Property and Equipment

The Group's consolidated property and equipment was ₱15.25 million in September 30, 2019 vis-à-vis ₱59.52 million in December 31, 2018, or a decrease of 74%. Property and equipment consisted of leasehold improvements, leased assets, office, information technology equipment, furniture and fixtures and right-of-use assets. PFRS 16's headline change is that lessees will recognize lease liability, and a right-of-use asset for almost all leases.

Intangible Assets

Intangible assets of ₱1,905.30 million as at September 30, 2019 were recognized in relation to the Group's acquisitions and investments. This is a 90% decrease vis-à-vis the December 31, 2018 figure of ₱3,612.92 million. The major portion of the drop was due to the derecognition of Intangible assets recorded when Xurpas previously acquired 51% of Yondu.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of September 30, 2019, goodwill is at ₱1,859.61 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of September 30, 2019, customer relationship valued at ₱1,077.81 million was derecognized due to sale of the Group's Yondu shares.
- Developed software pertains to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment. As at September 30, 2019, developed software net book value is at ₱100.68 million. Amortization of developed software for the nine-month period ended September 30, 2019 amounted to ₱22.39 million.
- Cryptocurrencies pertain to units of Bitcoin and Ethereum held by the Group as at September 30, 2019 valued at ₱5.32 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of September 30, 2019, leasehold rights net book value is at ₱5.15 million. Amortization of leasehold rights for the nine-month period ended September 30, 2019 amounted to ₱1.45 million.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱6.64 million as at September 30, 2019, which decreased by 53% from ₱14.19 as at December 31, 2018.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱36.73 million as of September 30, 2019. This figure is 21% lower than the value posted as of December 31, 2018 at ₱46.37 million. These are primarily rental and other deposits amounting to ₱1.39 million and ₱35.20 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱551.38 million as at September 30, 2019 was a 22% or ₱143.15 million decrease from its December 31, 2018 figure of ₱654.52 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱120.05 million, payable to related parties at ₱104.87 million, accrued expenses at ₱18.4 million, nontrade payables at ₱54.75 million, taxes payable at ₱11.27 million, deferred output VAT at ₱1.50 million and other payables at ₱200.52 million.

Loans Payable

The Group recorded ₱54.51 million in current loans in September 30, 2019 and ₱358.74 million in December 31, 2018. The outstanding bank loans of Xurpas parent, amounting to ₱304.23 million were settled, thus the decrease in loans payable.

Contract liability

Contract liabilities are obligations to transfer goods and services to customers from whom the Group has received consideration. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due. Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group's consolidated contract liability as at September 30, 2019 amounted to ₱49.94 million, an increase of 12% from the December 31, 2018 figure of ₱44.50 million.

Income Tax Payable

The Group's consolidated income tax payable as at September 30, 2019 amounted to nil, a decrease of 100% from the December 31, 2018 figure of ₱2.19 million.

Other Current Liabilities

The Group's other current liabilities amounted to ₱0.75 million in September 30, 2019 compared to ₱63.75 million in 2018, a decrease of 98%. A substantial portion of this account is the dividends payable by Yondu, which was deconsolidated when Xurpas stake in Yondu was sold.

Finance Lease- net of current portion

Seer entered into a lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.83% to 1.12%. Seer's finance lease, net of current portion, amounted to ₱0.02 million and ₱0.03 million in September 30, 2019 and December 31, 2018, respectively.

Deferred Tax Liability - net

As of September 30, 2019, the deferred tax liability (net) was at ₱7.94 million, a decrease of 98% or ₱344.79 million from ₱352.73 million as of December 31, 2018. This is primarily the deferred tax liability on fair value adjustment on intangible assets, pertinent to Yondu.

Pension Liability

The accrued pension of the Group is at ₱23.52 million in September 30, 2019, which was unchanged from its levels in December 31, 2018.

Equity

Total Equity

The Group's total equity as of September 30, 2019 was at ₱2,014.11 million, a 42% decrease from its December 31, 2018 level at ₱3,466.58 million. Retained earnings decreased by ₱612.55 million or 110% in September 30, 2019. This is largely a result of the sale of the 51% shareholding of Xurpas in Yondu, affecting not only the retained earnings but the non-controlling interest amount.

Liquidity and Capital Resources

The Group's liquidity is primarily driven by cash flows from operating activities and cash reserves. The Group knows of no demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity. The Group is current on all of its accounts. The Group has some bank debt through Seer Technologies Inc. and Storm Technologies Inc. which are short term in nature. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

In PhP Millions	For the nine months ended September 30	
	2019	2018
	Amount	Amount
Net cash provided by (used in) Operating Activities	(605.32)	(200.04)
Net cash provided by (used in) Investing Activities	844.80	99.25
Net cash provided by (used in) Financing Activities	(142.40)	0.43
Effect of foreign currency exchange changes in cash	6.57	13.39
Net increase (decrease) in cash	103.65	(86.96)
Cash at beginning of period	177.40	215.25
Cash at end of period	281.05	128.29

Cash Flows Provided by Operating Activities

For the first nine months of 2019, operating loss of ₱529.58 million was coupled with the corresponding increase in account receivables and account payables for a resulting ₱559.71 million net cash spent for operations. Together with interest received and income taxes paid, this resulted in a net cash generated in operating activities of ₱605.32 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for the first nine months of 2019 was ₱844.80 million compared to ₱99.25 million used in the same period of 2018. The net cash used in investing activities was mainly attributable to the acquisitions of property and equipment.

Cash Flows Used in Financing Activities

The Group's consolidated net cash flow used in financing activities for the nine-month period ended September 30, 2019 was ₱142.40 million; compared to ₱0.43 million provided for the nine-month period ended September 30, 2018. The cash flow provided by financing activities were mainly from advances from stockholders, payment of dividends and loans.

Capital Expenditure

The Group's capital expenditures for the nine-month period ended September 30, 2019 and the year ended December 31, 2018 amounted to ₱84.87 million and ₱18.35 million, respectively.

Key Financial Data In PHP Millions	September 30, 2019 Additions	December 31, 2018 Additions
Right-of-use Assets	73.49	-
IT Equipment	10.22	14.58
Leasehold Improvements	1.14	2.52
Office Equipment	0.02	1.19
Furniture and Fixtures	-	0.06
Leased Asset	-	-
	84.87	18.35

Additions of right-of-use assets resulted from adoption of PFRS 16.

Key Performance Indicators

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

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

In Percentage	For the nine-month periods ended September 30		For the year ended December 31
	2019	2018	2018
Liquidity Ratios			
Current Ratio	64%	94%	69%
Quick Ratio	56%	84%	64%
Asset-to-Equity Ratio	135%	164%	183%
Profitability Ratios			
Net Income Margin	-72%	-21%	-62%
Gross Margin	22%	15%	9%
Operating Margin	-58%	-21%	-46%
Return on Total Assets	-17%	-3%	-14%
Return on Equity	-28%	-5%	-22%
Debt Ratios			
Debt-to-Equity Ratio	0.38x	0.40x	0.55x
Interest Coverage Ratio	-17.18x	-11.03x	-20.45x

Current Ratios

Current Ratio and Quick Ratio in the nine-month period ended September 30, 2019 were 64% and 56%, respectively, a decrease from their respective 69% and 64% figures during the full year of 2018. The decrease in both ratios was primarily from the significant decrease in current assets of the Group for that period.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 183% in December 31, 2018 to 135% in September 30, 2019 resulted from the decrease in equity due to net loss incurred during the period reduction of the non-controlling interest amount and the decrease in total assets due to deconsolidation of Yondu.

Profitability Ratios

Profitability margins had the following results due to the sale of Xurpas' 51% shareholding in Yondu: Gross Profit Margin (22%); Net Loss Margin (-72%), Operating Margin (-58%), Return on Total Assets (-17%) and Return on Equity (-28%).

Debt Ratios

Debt to Equity in September 30, 2019 was at 0.38x compared to 0.55x as at December 31, 2018. The decrease in the gearing ratio was attributed to significant decrease in liabilities and lower total equity value in September 30, 2019 compared to the previous year. Interest coverage ratio in September 30, 2019 was at 17.18x compared to - 20.45x in December 31, 2018.

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

Current Ratios

1. Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
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2. Quick ratio	$\frac{\text{Current assets} - \text{Other current assets}}{\text{Current liabilities}}$
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Asset-to-equity Ratio	$\frac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$
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Profitability Ratios

1. Net income ratio	$\frac{\text{Net income attributable to Parent Company}}{\text{Total equity attributable to Parent Company}}$
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	<hr/> Service income + Sale of goods
2. Gross margin	(Service income + Sale of goods) – (Cost of services + Cost of goods sold)
	<hr/> Service income + Sale of goods
3. Operating margin	Earnings before interest, tax, depreciation and amortization
	<hr/> Service income + Sale of goods
4. Return on total assets	Net income attributable to Parent Company
	<hr/> Average total assets
5. Return on total equity	Net income attributable to Parent Company
	<hr/> Average total equity attributable to the Parent Company

Debt Ratios

1. Debt-to-equity ratio	Total Liabilities
	<hr/> Total equity attributable to Parent Company
2. Interest coverage ratio	Earnings before interest and tax
	<hr/> Interest expense

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and net proceeds of the sale of a stake in its subsidiary. The Group can also obtain additional advances from its stockholders and negotiate for longer payment terms for its payables.
- ii. Events that will trigger Direct or Contingent Financial Obligation. There are no events that will trigger direct or contingent financial obligations that are material to the Group, including and default or acceleration of an obligation.
- iii. Material Off-balance sheet Transactions, Arrangements, Obligations. Likewise, there were no materials off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the group with unconsolidated entities or other persons

created during the reporting period.

- iv. Material Commitments for Capital Expenditure. There are no material commitments for capital expenditures.
- v. Material Events/ Uncertainties. There are no new trends, events, or uncertainties that are expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are confined to its mobile consumer and other services segment.