

CR06011-2019

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement
 Definitive Information Statement

2. Name of Registrant as specified in its charter

Xurpas Inc.

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

Philippines

4. SEC Identification Number

A200117708

5. BIR Tax Identification Code

219-934-330

6. Address of principal office

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

Postal Code

1227

7. Registrant's telephone number, including area code

(632) 8889-6467

8. Date, time and place of the meeting of security holders

November 8, 2019, 9:00 a.m., Makati Sports Club, L.P. Leviste corner Gallardo Streets,
Salcedo Village, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders

Oct 15, 2019

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

N/A

Address and Telephone No.

N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA
(information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
common Shares	1,871,830,210

13. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

1,797,700,660 common shares of the Company are listed with the Philippine Stock

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

XURPAS

Xurpas Inc.

X

**PSE Disclosure Form 17-5 - Information Statement for Annual or
Special Stockholders' Meeting
References: SRC Rule 20 and
Section 17.10 of the Revised Disclosure Rules**

Date of Stockholders' Meeting	Nov 8, 2019
Type (Annual or Special)	Annual
Time	9:00 a.m.
Venue	Makati Sports Club, L.P. Leviste corner Gallardo Streets, Salcedo Village, Makati City
Record Date	Sep 6, 2019

Inclusive Dates of Closing of Stock Transfer Books

Start Date	N/A
End date	Sep 6, 2019

Other Relevant Information

N/A

Filed on behalf by:

Name	Mark Gorriceta
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Designation	Assistant Chief Information Officer
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NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Xurpas Inc. will be held at the Makati Sports Club, L.P. Leviste Corner Gallardo Streets, Salcedo Village, Makati City on **Friday, November 8, 2019 at 9:00 o'clock in the morning** with the following:

AGENDA

1. Call to Order
2. Determination of Quorum
3. Approval of Minutes of the Previous Meeting
4. Message of the Chairman
5. Annual Report of the President
6. Election of Directors and Independent Directors
7. Appointment of External Auditors
8. Other Matters
9. Adjournment

Only stockholders of record at the close of business day on **September 6, 2019** are entitled to notice of, and to vote at, this meeting.

Makati City, October 7, 2019.



MARK S. GORRICETA
*Corporate Secretary, Chief Legal Officer and
Chief Compliance Officer*

We are not soliciting your proxy. However, if you will not attend the meeting but wish to be represented, you may accomplish the proxy form that will be sent to you and submit the same on or before **October 28, 2019** to the Office of the Corporate Secretary at 7th Floor Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City. Validation of proxies will be held on **November 4, 2019** at 9:00 am at the Office of the Corporate Secretary.

For Stockholders whose shareholdings are lodged with the Philippine Central Depository, please secure an original certification from your respective brokers. Kindly bring the said original certification on the date of the ASM.

You may also access or download these materials through the following:

1. By accessing through the following link: <https://xurpasgroup.com/corporate-governance/annual-stockholders-meeting-documents/>
2. By requesting for soft or hard copies through an email request to: ir@xurpas.com or by calling us at +(632) 889 6467.

EXPLANATION OF AGENDA ITEMS

Determination of Quorum

The Corporate Secretary shall certify the date the notice of the meeting was sent to all stockholders of record and the date of the publication of the notice in a newspaper of general circulation. The Corporate Secretary shall also certify the existence of a quorum.

Approval of the Minutes of the Previous Meeting

The minutes of the meeting held on July 17, 2018 are posted at the company website. Copies of the said meeting shall also be distributed to the stockholders before the meeting.

Message of the Chairman

The Chairman, Mr. Nico Jose S. Nollado shall deliver his message to the stockholders of the company.

Annual Report of the President

The President, Mr. Alexander D. Corpuz, shall deliver a report to the stockholders on the performance of the company in 2018. The audited financial statements as of December 31, 2018 shall be included in the Information Statement to be sent to the stockholders of record.

Election of Directors

The election of directors should be by ballot and cumulative voting is allowed.

Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares outstanding in his name at the time of the election. The stockholder may vote his shares for as many persons as there are directors to be elected.

Appointment of External Auditors

The Audit Committee shall endorse to the stockholders the appointment of an external auditor for the current fiscal year. The profile of the external auditor will be included in the Information Sheet to be sent to the stockholders of record.

PROXY

The undersigned, being a stockholder of **Xurpas Inc.** (the “Corporation”), constitutes and appoints _____, or in his/her absence, the Chairman of the stockholders’ meeting, to be the undersigned’s proxy, to represent and vote all shares registered in the name of, and beneficially owned by, the undersigned at the annual meeting of the stockholders of the Corporation scheduled on November 8, 2019, at 9:00 a.m., at Makati Sports Club, L.P. Leviste corner Gallardo Streets, Salcedo Village, Makati City, and at all adjournments thereof, for the following matters:

1. Approval of Minutes of Previous Meeting

Yes No Abstain

2. Approval of annual report and Audited Financial Statements

Yes No Abstain

3. Election of Directors and Independent Directors

Name	No. of Votes	Name	No. of Votes
Nico Jose S. Nolloedo		Mercedita S. Nolloedo	
Alexander D. Corpuz		Wilfredo O. Racaza	
Fernando Jude F. Garcia		Jonathan Gerard A. Gurango <i>(Independent)</i>	

4. Appointment of External Auditor

Yes No Abstain

IN WITNESS WHEREOF, the undersigned executes this proxy this _____.

Signature of Stockholder /Authorized Signatory: _____
Name of Stockholder: _____
No. of Common Shares: _____
Date: _____

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **OCTOBER 28, 2019**, AT 7TH FLOOR CAMBRIDGE CENTRE BUILDING 108 TORDESILLAS ST., SALCEDO VILLAGE, MAKATI CITY.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND APPROVAL OF THE MATTERS STATED ABOVE.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

VALIDATION OF PROXIES SHALL BE HELD ON NOVEMBER 4, 2019 AT THE OFFICE OF THE CORPORATE SECRETARY. NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:
[] Preliminary Information Statement
[] Definitive Information Statement
2. Name of Registrant as specified in its charter: **XURPAS INC.**
3. Province, country or other jurisdiction of incorporation or organization: **Philippines**
4. SEC Identification Number: **A200117708**
5. BIR Tax Identification Code: **219-934-330**
6. Address of principal office: **7th Floor Cambridge Centre Building
108 Tordesillas St., Salcedo Village
Makati City 1227**
7. Registrant's telephone number, including area code: **(632) 889-6467**
8. Date, time and place of the meeting of security holders:
Date : November 8, 2019
Time : 9:00 a.m.
**Place : Makati Sports Club, L.P. Leviste
Corner Gallardo Streets, Salcedo
Village, Makati City**
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **October 15, 2019**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding (As of August 31, 2019)
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Common Shares	1,871,830,210
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11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [] No []

The 1,797,700,660 common shares of the Corporation are listed with the Philippine Stock Exchange.

INFORMATION REQUIRED IN INFORMATION STATEMENT

**WE ARE NOT ASKING FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND US A PROXY**

A. GENERAL INFORMATION

Item 1. Date, Time, and Place of Meeting of Security Holders

The Annual Stockholders' Meeting of XURPAS INC. ("Xurpas" or the "Corporation") will be held on the following date at the following address:

Date	:	November 8, 2019
Time	:	9:00 a.m.
Place	:	Makati Sports Club L.P. Leviste corner Gallardo Streets Salcedo Village Makati City
Complete mailing address of registrant	:	7th Floor Cambridge Centre Building 108 Tordesillas St., Salcedo Village Makati City 1227
Approximate mailing date of this statement	:	October 14, 2019

Item 2. Dissenters' Right of Appraisal

There are no corporate matters or actions that will be taken up at the meeting that may give rise to a possible exercise by stockholders of their appraisal rights under Section 81 of the Corporation Code of the Philippines.

Section 80, Title X: Appraisal Right of the Revised Corporation Code of the Philippines, provides that any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) in case of any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or authorizing preferences in any respect superior to those of outstanding shares of any class, or extending or shortening the term of corporate existence;
- (b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;
- (c) in case of merger or consolidation; and

(d) in case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

This appraisal right may be exercised by any stockholder who has voted against the proposed corporate action, by making a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken: provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right.

The Corporation shall apply and observe the rules identified in Title X of the Revised Corporation Code on exercise of Appraisal Right.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

- a. The incumbent directors and executive officers and their associates have no substantial interest in any matter to be acted upon at the meeting other than election to the office.

- b. No director has informed the Corporation of his opposition to any matter to be acted upon at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a. **Class of voting shares**

Number of outstanding shares as of September 6, 2019	:	1,871,830,210 common shares
Number of votes per share	:	One vote each share of stock held as of record date of September 6, 2019

b. **Record date**

All stockholders of record as of **September 6, 2019** are entitled to notice and to vote at the meeting.

c. **Election of directors and cumulative voting rights**

The election of directors should be by ballot and cumulative voting is allowed.

Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares outstanding in his name at the time of the election. The stockholder may vote his shares for as many persons as there are directors to be elected.

The stockholder may also cumulate his shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he may see fit; provided that

the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected. There is no condition precedent to the exercise of the stockholders' right to cumulative voting. The Corporation is not soliciting any proxy or any discretionary authority to cumulate votes.

d. Security ownership of certain record and beneficial owners and management

1. Security ownership of certain record and beneficial owners

As of September 6, 2019 (Record Date), the Corporation is not aware of any person who is directly or indirectly the record or beneficial owner of more than 5% of the Corporation's capital stock except as set forth below:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Direct or Indirect)	Percent of Class
Common	Nico Jose S. Nollo Urdaneta Tower, Ayala Avenue, Makati City (Chairman and Chief Executive Officer)	Nico Jose S. Nollo	Filipino	322,226,622 ¹ (Direct and Indirect)	16.65%
Common	Fernando Jude F. Garcia North Lane, Jem 2 Subd., Tandang Sora, Quezon City (Director, Chief Technology Officer and Treasurer)	Fernando Jude F. Garcia	Filipino	375,073,960 (Direct)	20.04%
Common	Raymond Gerard S. Racaza One Salcedo Place, Jaime Velasquez St., Salcedo Village, Makati City	Raymond Gerard S. Racaza	Filipino	375,765,960 (Direct)	20.07%

¹ This includes Xurpas shares registered in the name of Eden International Holdings Pte. Ltd.

Common	PCD Nominee Corp. (Filipino)	PCD participants acting for themselves and for their customers ²	Filipino	505,631,891 ³ (Direct)	27.01%
Common	PCD Nominee Corp. (Non-Filipino)	PCD participants acting for themselves and for their customers ⁴	Non-Filipino	292,459,234 (Direct)	15.62%

As of September 6, 2019, 15.62% of the outstanding shares of the Corporation are held by foreigners.

2. Security ownership of directors and management as of August 31, 2019

As of September 6, 2019, the Corporation's directors and executive officers own the following number of shares:

Title of Class	Name of Owner and Position	Citizenship	No. of Shares and Nature of Ownership (Direct or Indirect)	Percent of Class
Common	Nico Jose S. Nollo Chairman	Filipino	322,226,622 ⁵ (Direct and Indirect)	17.21%
Common	Alexander D. Corpuz Director, President, Chief Finance Officer and Chief Information Officer	Filipino	1,000 (Direct)	Nil
Common	Fernando Jude F. Garcia Director, Chief Technology Officer and Treasurer	Filipino	375,073,950 (Direct)	20.04%
Common	Mercedita S. Nollo Director	Filipino	2,378,338 (Direct)	0.13%

² Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. The Corporation has no record relating to the power to decide how the shares held by PCD are to be voted.

³ List of Stockholders issued by the Stock Transfer Agent reflects that PCD Nominee (Filipino) holds 1,414,395,803 common shares in Xurpas Inc. We revised this to remove shares in the name of Mr. Nico Jose S. Nollo, Mr. Fernando Jude F. Garcia, Mr. Raymond Gerard S. Racaza, Eden International Holdings Pte. Ltd and Xurpas' Treasury Shares.

⁴ Id.

⁵ This includes all Xurpas Shares registered in the name of Eden International Holdings Pte. Ltd.

Common	Wilfredo O. Racaza Director	Filipino	1,060 (Direct)	Nil
Common	Jonathan Gerard A. Gurango Independent Director	Filipino	169,399 (Direct)	0.01%
Total (Directors and Officers as a Group)			699,850,379	37.39%

3. Voting Trust Holders of 5% or More

The Corporation is not aware of any person holding 5% or more of the Corporation's shares under a voting trust or similar agreement.

4. Changes in Control

There was no change of control in the Corporation during the year. There are no existing provisions in the Corporation's Articles of Incorporation or By-Laws that will delay, defer, or in any manner prevent a change in control of the Corporation.

Item 5. Directors and Executive Officers

i. Board of Directors, Independent Directors and Executive Officers

The stockholders elected the following members of the board of directors ("Board") during the Corporation's Annual Stockholders Meeting in 2018 for a term of one year.

Directors	Nationality	Position	Year Position was Assumed
Nico Jose S. Nolloedo	Filipino	Chairman	2001
Raymond Gerard S. Racaza ⁶	Filipino	Executive Director	2001
Fernando Jude F. Garcia	Filipino	Executive Director	2001
Mercedita S. Nolloedo	Filipino	Non-Executive Director	2001
Wilfredo O. Racaza	Filipino	Non-Executive Director	2001
Alvin D. Lao ⁷	Filipino	Independent Director	2014
Jonathan Gerard A. Gurango	Filipino	Independent Director	2014

Background Information

Nico Jose S. Nolloedo, Filipino, 42, has been the Chairman and Director of the Corporation since 2001. He is the first Filipino Entrepreneur chosen by the Endeavour network. He is also the Ernst and Young's 2015 Philippine Entrepreneur of the year and was chosen as one of The Outstanding Young Men ("TOYM") in the Philippines in 2015. Mr. Nolloedo holds a Bachelor of Science degree in Management from Ateneo de Manila University.

⁶ Mr. Raymond Gerard S. Racaza resigned as Director, President and Chief Executive Officer effective January 30, 2019.

⁷ Mr. Alvin D. Lao resigned as Independent Director effective May 22, 2019.

Alexander D. Corpuz, Filipino, 52, was appointed as Director and President of the Corporation effective February 1, 2019. He has also been the Corporation's Chief Finance Officer since 2014 and Chief Information Officer since 2018. Mr. Corpuz has 29 years of experience in the field of finance, ten years of which was in investment and commercial banking. He was Vice President of Bank of America in 2001, before serving as CFO for Liberty Telecoms, Information Gateway, Mañosa Group of Companies and Hatchd Inc. Mr. Corpuz holds a Bachelor of Science in Business Administration degree from University of the Philippines, Diliman, Cum Laude. He obtained his Masters in Business Management from the Asian Institute of Management, Makati City. He is a member of the Financial Executives Institute of the Philippines (FINEX).

Fernando Jude F. Garcia, Filipino, 46, has been the Chief Technology Officer and Director of the Corporation since 2001. He was also appointed as Treasurer effective February 1, 2019. He also served as Corporate Secretary of the Corporation until December 2014. He created the Corporation's Griffin Platform, the mobile consumer content gateway and platform for all of the Corporation's mobile consumer content products and services. He also created the Corporation's modular middleware system that can easily integrate with any modern billing gateway. He is the chief engineer responsible for the Corporation's software architecture and systems integration. Examples of such systems and protocols are the following: SMS (CIMD2/EMI-UCP/SMPP), MMS (EIAF/MM7), Voice Services (SIP), Billing/IN (Diameter/UCIP/ParlayX2.1), Security (IPSEC), Publish-subscribe Systems and Video Streaming (RTMP/HLS) and blockchain technology (BTC/ETH). He is also responsible for architecting the Corporation's fully Cloud-based system infrastructure. Before founding the Corporation, he was a software developer in iAyala. Mr. Garcia holds a Bachelor of Science degree in Applied Physics from the University of the Philippines in Diliman, Quezon City.

Wilfredo O. Racaza, Filipino, 70, has been a Director of the Corporation since 2001. Mr. Racaza has 49 years of marketing and finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. He previously worked as an insurance executive in Manulife Financial Philippines for 33 years. He is a Registered Financial Consultant (Graduated Cum Laude in May 2015). He has garnered numerous accolades and multiple awards such as Branch of the Year recognitions and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to Present. Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University (Ateneo de Cagayan) in Cagayan de Oro City.

Mercedita S. Nollado, 78, Filipino, has been a Director of the Corporation since 2001. Atty. Nollado is currently a director of Bank of the Philippine Islands, BPI Family Savings Bank and BPI Capital Corporation, Anvaya Golf and Nature Club, Inc., BPI Asset Management & Trust Corporation and Michigan Holdings, Inc. She is the Chairman of BPI Investment Management Corporation. She is currently an independent director of D&L Industries, Inc. She is a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. She has served as a director of Cebu Holdings, Inc. from 1993 to 2006 and of Ayala Corporation from 2004 to 2010. Atty. Nollado was formerly Corporate Secretary and General Counsel of the Ayala Group of Companies and the Senior Managing Director of the Ayala Corporation. She served as Executive Vice President, director and Corporate Secretary of Ayala Land, Inc. and as the firm's Treasurer. Atty. Nollado placed second in the Certified Public Accountant exams in

1960 and also placed second in the 1965 bar exams. She holds a Bachelor of Science degree in Business Administration, magna cum laude, from the University of Philippines. Atty. Nolleto holds a Bachelor of Laws degree, cum laude, from the University of the Philippines.

Jonathan Gerard A. Gurango, 61, Filipino, has been an independent director of the Corporation since 2014. Mr. Gurango has a solid track record in forming and running successful software companies. He founded Match Data Systems (MDS) in Seattle, USA in 1987, MDS Philippines in 1991, and MDS Australia in 1996. In 1999, he sold MDS to Great Plains Software, which was acquired by Microsoft in 2001. Mr. Gurango served as the Asia Pacific Regional Director for Microsoft Business Solutions, before he left in 2003 to form Gurango Software. In 2007, he was inducted into the Hall of Fame for Microsoft's Most Valuable Professionals, in recognition of his mastery of software technology and business. In 2006, the Philippine Center for Entrepreneurship acknowledged him as one of the country's Ten Most Inspiring Technopreneurs. In addition to leading Gurango Software as the most successful Microsoft Dynamics partner in the Philippines, he has co-founded several other software start-ups such as SPRING.ph, and was the President of the Philippine Software Industry Association from 2013 to 2014. Mr. Gurango studied Industrial Engineering at the University of the Philippines, Diliman, Quezon City. He also studied Electrical Engineering at the University of Washington, Seattle, Washington, USA.

Mark S. Gorriceta, 41, Filipino, has been the Corporate Secretary and Chief Legal Officer of the Corporation since 2014. He was also appointed as Chief Compliance Officer of the Corporation in 2018. Atty. Gorriceta has been in the practice of law for fourteen years. He acts as legal counsel to several other listed companies, its subsidiaries or affiliates. Atty. Gorriceta also serves as Chief Legal Counsel and/or Corporate Secretary to several leading online and tech companies in the Philippines. He is the Managing Partner and heads the Corporate Group of Gorriceta Africa Cauton & Saavedra. A member of the Philippine Bar since 2005, he holds a Bachelor of Arts, Political Science degree from the Ateneo de Manila University. He also attended certificate courses in Finance at the Asian Institute of Management in Makati City.

Attendance in Board Meetings

The attendance of the directors at the meetings of the Board held in 2018 is as follows:

Directors	Number of Meetings Held and Attended	Percentage
Nico Jose S. Nolleto	13/13	100.00%
Raymond Gerard S. Racaza	13/13	100.00%
Fernando Jude F. Garcia	13/13	100.00%
Mercedita S. Nolleto	13/13	100.00%
Wilfredo O. Racaza	12/13	92.31%
Alvin D. Lao	11/13	84.61%
Jonathan Gerard A. Gurango	12/13	92.31%

In compliance with its Manual of Corporate Governance, the Corporation has established committees to perform certain management functions and achieve sound corporate governance. The following were appointed as committee members during its 2018 Organizational Meeting:

Director	Executive	Corporate Governance	Board Risk Oversight	Nomination	Audit	Related Party Transaction	Personnel and Compensation
Nico Jose S. Nollo	C			C			
Raymond Gerard S. Racaza ⁸	M		M		M		C
Fernando Jude F. Garcia	M				M		
Mercedita S. Nollo		M			M		M
Wilfredo O. Racaza				M		M	
Alvin D. Lao ⁹		M	C		C	M	M
Jonathan Gerard A. Gurango		C	M	M		C	

C - Chairman
M - Member

Nomination of Directors

The Corporation's Nomination Committee pre-screened and accepted the nominations for the following directors:

1. Nico Jose S. Nollo
2. Alexander D. Corpuz
3. Fernando Jude F. Garcia
4. Mercedita S. Nollo
5. Wilfredo O. Racaza
6. Jonathan Gerard A. Gurango, *Independent*

The Nomination Committee evaluated the qualifications of the nominees and prepared the final list of nominees in accordance with the criteria provided in the Securities Regulation Code ("SRC"), the Corporation's Manual on Corporate Governance and the Corporation's By-Laws.

As discussed in the table above, the Nomination Committee is headed by Mr. Nico Jose S. Nollo and its members are: Wilfredo O. Racaza, and Jonathan Gerard A. Gurango.

⁸ Mr. Raymond Gerard S. Racaza resigned as Director, President and Chief Executive Officer effective January 30, 2019. He also resigned as member of the committees on the said date.

⁹ Mr. Alvin D. Lao resigned as Independent Director effective May 22, 2019. He also resigned as member of the committees on the said date.

Only nominees whose names appear on the final list of candidates are eligible for election as directors. No nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

The Board elects the officers of the Corporation annually during its organizational meeting.

Independent Directors

For this year's nominees, only one (1) person qualified as independent director. The President, Mr. Alexander D. Corpuz, nominated the incumbent independent director, Mr. Jonathan Gerard A. Gurango for the next term. Mr. Alexander D. Corpuz and Mr. Jonathan Gerard A. Gurango are not related by consanguinity or affinity up to the fourth civil degree.

ii. Significant Employees

The Corporation values the contribution of each employee no matter how big or small and considers all its employees significant. There is no "significant employee" as defined in the SRC.

iii. Family Relationships

Mr. Nico Jose S. Nolloedo, Chairman, is the son of Atty. Mercedita S. Nolloedo, a director.

There are no family relationships between the current members of the Board and the key officers other than the above.

iv. Involvement in Certain Legal Proceedings

There are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Corporation or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency.

As of this report, the Corporation is not a party to any litigation or arbitration proceedings of material importance, which could be expected to have a material adverse effect on the Corporation or on the results of its operations. No litigation or claim of material importance is known to be pending or threatened against the Corporation or any of its properties.

v. Certain Relationships and Related Transactions

In the conduct of its day-to-day business, the Corporation engages in related party transactions such as service and licensing agreements, always at arms-length and taking into consideration the best interest of the Corporation.

The Corporation has secured loans from its key shareholders. On February 20, 2019, the board of directors approved the execution of a loan agreement wherein the key shareholders of the Corporation agreed to extend an aggregate of Php150 million loan to be used to fund enterprise projects and for general corporate purposes.

See Note 20 of the Corporation’s 2018 Consolidated Audited Financial Statements for a detailed discussion of the related party transactions entered into by the Corporation.

vi. **Ownership Structure and Parent Corporation**

As of September 6, 2019, the founders, Mr. Nico Jose S. Nolloedo and Mr. Fernando Jude F. Garcia, own 36.69% of the Corporation. They actively manage the Corporation’s business activities. Mr. Raymond Gerard S. Racaza, also a founder but has resigned from any management role, owns 20.07% of the Corporation. Xurpas Inc. has no parent company.

vii. **Resignation of directors**

Mr. Raymond Gerard S. Racaza has resigned as Director effective January 30, 2019. Mr. Alvin D. Lao has resigned as Independent Director effective May 22, 2019. Mr. Raymond Gerard S. Racaza and Mr. Alvin D. Lao does not have any known disagreement with the Corporation’s affairs and they resigned for personal reasons.

Item 6. Compensation of Directors and Executive Officers

a. **Executive compensation**

Name	Position	Salary	Estimated		Total
			Bonus	Other	
Raymond Gerard S. Racaza	President & Chief Executive Officer ¹⁰				
Alexander D. Corpuz	Chief Finance Officer & Chief Information Officer				
Jose Vicente T. Colayco	Treasurer & Chief Operating Officer ¹¹				
Alfonso A. Tagaysay	Chief Marketing Officer ⁷				
Total	2019 (Projected)	₱6,163,838.25	N/A	N/A	₱6,163,838.25
	2018	12,584,516.66	N/A	N/A	12,584,516.66
	2017	18,993,973.75	N/A	N/A	18,993,973.75
	2016	19,878,809.86	N/A	N/A	19,878,809.86
	2015	29,390,786.72	N/A	N/A	29,390,786.72

The total annual compensation consists of basic pay and other taxable income. The substantial decrease in salaries can be attributed to the resignation of certain officers, specifically, Mr. Jose Vicente T. Colayco and Mr. Alfonso A. Tagaysay. Their previous salaries did not form part of the 2019 projections for Executive Compensation.

¹⁰ Mr. Raymond Gerard S. Racaza resigned as President and Chief Executive Officer of the Parent Company effective January 30, 2019.

¹¹ On September 5, 2018, the Board of Directors of the Parent Company approved the reassignment of Mr. Jose Vicente Colayco and Mr. Alfonso Tagaysay to ODX Pte. Ltd, a wholly owned subsidiary of Xurpas. As such, Messrs. Colayco and Tagaysay resigned as Director, Treasurer and Chief Operating Officer and as Chief Marketing Officer, respectively, of Xurpas effective September 6, 2018.

The Corporation’s executive officers have no other remuneration aside from the compensation described above.

b. Compensation of Directors

i. Standard Arrangement

The directors receive a standard per diem of Php20,000.00 for every meeting attended, which may be adjusted, as decided by the Personnel and Compensation Committee. Non-executive directors have no compensation aside from their per diem, while directors who hold executive positions receive compensation discussed in Item 6, in addition to their per diem.

ii. Other Arrangements

The Corporation has no other existing arrangements such as bonus, profit sharing, stock options, warrants, rights, or other compensation plans or arrangements with its directors. The Corporation has applied for an Employee Stock Option Plan, approval of which is currently pending with the Securities and Exchange Commission and the Philippine Stock Exchange. The details are as follows:

Title and Amount of Securities	A minimum of 0.5% to a maximum of 1.5% of the outstanding capital stock of the Corporation’s common share are reserved for the Plan, but in no case shall the aggregate number of shares represented by outstanding options exceed 1% of fully-diluted shares, inclusive of shares represented by such outstanding options.		
Price	Not in any case be less than the Fair Market Value (“FMV”) of the Corporation’s shares, or such lower purchase price as may be allowed under the rules of the PSE or the SEC subject to adjustment in case of change in the FMV of the Corporation’s shares by virtue of stock dividends, stock splits or any of the events stated in Article 5.2 of the Plan. However, in no case shall it be less than the subscription price of ₱3.97 at which the Corporation’s shares were initially offered for sale to the public in December 2014.		
Option Expiry Date	3 rd Year anniversary of the option grant date.		
Exercise of Privilege	During the first year of the effectivity of the grant	1/3 of the total grant	
	During the second year of the effectivity of the grant	1/3 of the total grant	
	During the third year of the effectivity	1/3 of the total grant	

		date of the grant	
		or such shorter or longer period as the Committee may prescribe from date of effectivity thereof or the "Vesting Period".	
Participants ¹²	<p>All such full time and regular employees of the Corporation and such other qualified persons determined by the Personnel and Compensation Committee from those recommended by the Executive Committee from a list of all such full-time and regular employees of the Corporation, its subsidiaries and/or affiliates are eligible to participate in the Plan.</p> <p>The Committee shall have the sole discretion to determine from the list recommended employees who will be granted options under the Plan, taking into consideration certain criteria such as, but not limited to the exceptional performance of the employee or his/her valuable contribution to the business of the Corporation, its subsidiaries and/or affiliates</p>		

The above application is pending approval of the Securities and Exchange Commission.

c. Employment Contracts, Termination of Employment, Change-in-Control Arrangements

The Executive Officers have entered into employment contracts with the Corporation which identifies their job functionalities. The Corporation does not have any compensatory plan or arrangements such as bonus, profit sharing, stock options, warrants, rights or other compensation plans or arrangements that results from the resignation, retirement of employment, or any other termination of an executive officer's employment with the Corporation, or from a change in control of the Corporation.

d. Warrants and Options Outstanding

The Corporation does not have any stock options, warrants or similar plans for any of its directors or officers. The Corporation has applied with the SEC for an Employee Stock Option Plan, approval of which is currently pending with the Securities and Exchange Commission and the Philippine Stock Exchange.

¹² The amount of options to be received by the Directors/Officers, or all other employees of the Xurpas' group is not determinable as of date.

Item 7. Independent Public Accountants

a. External Auditor

SyCip, Gorres, Velayo & Company (“SGV”) has been its external auditor since 2008. SGV is in compliance with the SRC requirement of rotating the handling partner every five consecutive years. A two-year *cooling off period* shall be observed in the re-engagement of the handling partner.

The handling partner who conducted the audit for the calendar year 2018 is Mr. Dolmar C. Montañez. He has been the handling partner for the audit of the Corporation’ since calendar year 2017. He is also the recommended partner-in-charge for calendar year 2019.

The Board approved the re-appointment of SGV as the Corporation’s external auditor for 2019. The re-appointment of SGV will be presented to the stockholders for their approval at the annual stockholders’ meeting.

The Corporation has no disagreements with SGV on accounting principles and practices, financial statement disclosures, or auditing scope or procedures.

Representatives of SGV will be present at the annual stockholders’ meeting and will have the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

Item 8. Compensation Plans

There are no matters or actions to be taken up with respect to any stock option, warrants or rights plan.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

There are no matters or actions to be taken up with respect to authorization or issuance of securities.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up for the modification of any class of the Corporation’s securities or the issuance or authorization for issuance of one class of the Corporation’s securities in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

- a. Management’s Discussion and Analysis, External Auditor’s Fees and Services, Brief Description of Registrant’s Business and Subsidiaries and Market Price of Shares and Dividends on Registrant’s Common Equity – **Exhibit “B”**¹³
- b. Audited Consolidated Financial Statements for the years ended December 31, 2018 and 2017 – **Exhibit “C”**¹⁴
- c. Index to Consolidated Financial Statements and Supplementary Schedules – **Exhibit “D”**¹⁵
- d. Unaudited Consolidated Financial Statements as of June 30, 2019– **Exhibit “E”**

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

There are no matters or actions to be taken up in the meeting with respect to a merger, consolidation, acquisition by, sale or liquidation of the Corporation.

Item 13. Acquisition or Disposition of Property

There are no matters or actions to be taken up in the meeting with respect to an acquisition or disposition of any property by the Corporation requiring stockholders’ approval.

Item 14. Restatement of Accounts

There is no action to be taken with respect to the restatement of any asset, capital, or surplus account of the Corporation.

Item 15. Action with Respect to Reports

1. The minutes of the regular stockholders’ meeting held on July 17, 2018 will be presented to the stockholders for approval.
2. The Corporation will present its Audited Financial Statements for the year ending December 31, 2018 and the Interim Report as of June 30, 2019 to inform the stockholders on the current business operations of the Corporation. The following shall likewise be included in the discussion:
 - a. An assessment of the corporation's performance, which shall include information on any material change in the corporation's business, strategy, and other affairs;
 - b. A discussion on the corporation's internal controls or risk management systems, and a statement of all external audit and non-audit fees;
 - c. An explanation of the dividend policy and the reasons for nonpayment thereof; and
 - d. Discussion on related party transactions.

¹³ This will be included in the Definitive Information Statement.

¹⁴ Ibid.

¹⁵ Ibid.

3. Prior to election of directors, their profiles, which shall include, among others, their qualifications and relevant experience, length of service in the corporation, trainings and continuing education attended, and their board representations in other corporations shall be presented to the stockholders. The attendance report of the Board shall likewise be included in the discussion.

Item 16. Matters not Required to be Submitted

There are no matters or action to be taken up in the meeting that are not required to be submitted to a vote of security holders.

Item 17. Amendment of Charter, By-Laws or Other Documents

There are no matters or actions to be taken up in the meeting with respect to any amendment of the Articles of Incorporation or By-Laws.

Item 18. Other Proposed Action

These are the following proposed actions to be taken during the meeting on November 8, 2019:

1. Approval of Minutes of previous stockholders' Meeting
2. Approval of 2018 Annual Report
3. Election of the board of directors for the ensuing term:
 - a. Nico Jose S. Nollo
 - b. Alexander D. Corpuz
 - c. Fernando Jude F. Garcia
 - d. Wilfredo O. Racaza
 - e. Mercedita S. Nollo
 - f. Jonathan Gerard A. Gurango, *Independent*

4. Approval of Appointment of External Auditors

The Board will recommend Sycip Gorres Velayo & Co. as the External Auditor for the year 2019.

Item 19. Voting Procedures

a. Vote Required

The vote for each item proposed for approval by the stockholders is as follows:

- i. With respect to the election of directors, nominees who receive the highest number of votes will be declared elected.

- ii. For all other matters to be taken up, the affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented at the annual stockholders' meeting is required.

In the case of proxies, the votes should be cast in such manner and by such person as directed in the proxy.

ii. Method of Voting

In all items for approval, each voting share of stock entitles its registered owner as of the record date to one vote.

In the election of directors, straight and cumulative voting shall be allowed. Each stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate the shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares, or he may distribute them on the same principle among as many nominees as he shall see fit; provided that, the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.^{[[1]]}_{SEP}

Upon registration at the annual stockholders' meeting, each stockholder will be given a ballot to enable him to vote in writing on each item or proposal in the Agenda.^{[[1]]}_{SEP} All votes will be counted and tabulated by the Election Committee composed of representatives from the Office of the Corporate Secretary.

Undertaking to Provide Annual Report

Upon written request of a stockholder, the Corporation undertakes to furnish said stockholder, without charge, a copy of its Annual Report or SEC Form 17-A. Such written request may be addressed to:

MR. ALEXANDER D. CORPUZ
President
Xurpas Inc.
7th Floor Cambridge Centre Building,
108 Tordesillas St., Salcedo Village,
Makati City 1227

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on October 7, 2019.

XURPAS INC.

By:

A handwritten signature in black ink, appearing to read 'MARK S. GORRICETA', written over a faint circular stamp or watermark.

MARK S. GORRICETA
Corporate Secretary, Chief Legal Officer and
Chief Compliance Officer

CERTIFICATION

I, **JONATHAN GERARD A. GURANGO**, Filipino, of legal age and a resident of Orchard Road, 21 Olympic Heights T2, Eastwood, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Xurpas Inc.** (the “**Corporation**”) and have been its independent director since December 2014.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Gurango Software Corporation	Chief Executive Officer, Chief Technology Officer & Director	2003 – Present
Kation Technologies, Inc.	Director	2017 – Present
CodersGuild.net, Inc.	Director	2018 – Present
SERVIO.ph INC.	Director	2018 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities and Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the directors/officers/substantial shareholders of the Corporation, its subsidiaries, and affiliates nor a relative in any other way than the relationship provided under Rule 38 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not an officer or director of any government agencies or Government-Owned and Controlled Corporations.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Manual on Corporate Governance for Publicly Listed Companies and other SEC issuances.
8. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Executed on SEP 06 2019 day of _____, at PASIG CITY.

JONATHAN GERARD A. GURANGO
Affiant

SUBSCRIBED AND SWORN to before me this SEP 06 2019 at PASIG CITY, affiant personally appeared before me and exhibited to me his Passport ID P5527300A expiring on 05 Jan 2028.

Doc. No. 432 ;
Page No. 90 ;
Book No. 1 ;
Series of 2019.


ATTY. MARIEL CLAIRE D. GONZALES
PTR No. 5232388/ 01-08-19/ Pasig City
IBP LIFETIME No. 017254/ 06-09/17
Roll No. 69080
MCLE Compliance VI-0020653; 03-25-19
Gorriceta Africa Cauton & Saavedra Law Office
5th Flr. Strata 2000 Building, F. Ortigas, Jr. Road
Pasig City, Tel. No. (02)6960988/6690687
Appointment No. 147 (2019-2020)

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

CERTIFICATION

I, **MARK S. GORRICETA**, of legal age, Filipino, and with office address at the 15F and 4F Strata 2000 Building, F. Ortigas Jr. Road, Ortigas Center, Pasig City, Philippines, after having been duly sworn in accordance with law, depose and say that:

1. I am the Corporate Secretary of **Xurpas Inc.** ("Corporation"), a corporation existing under the laws of the Philippines with office at 7th Floor Cambridge Centre Building 108 Tordesillas St., Salcedo Village Makati City 1227;
2. In connection with the Annual Stockholders' Meeting of the Corporation scheduled on November 8, 2019, 9:00 am at Makati Sports Club, L.P. Leviste corner Gallardo Streets, Salcedo Village, Makati City, Metro Manila, Philippines, I hereby certify that none of the Corporation's directors or officers is connected with any government agencies or its instrumentalities; and
3. I am executing this Certification in compliance with the requirements of the Securities and Exchange Commission.


MARK S. GORRICETA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this SEP 06 2019 day of 2019,
affiant exhibiting to me his Philippine Passport No. EC50401039 issued on 19 September 2015
and valid until 18 September 2020.

NOTARY PUBLIC

Doc No. 429 ;
Page No. 89 ;
Book No. 1 ;
Series of 2019.


ATTY. MARIEL CLAIRE D. GONZALES
PTR No. 5232388/ 01-08-19/ Pasig City
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Appointment No. 147 (2019-2020)

MANAGEMENT REPORT

I. BRIEF DISCUSSIONS OF THE GENERAL NATURE AND SCOPE OF THE BUSINESS OF THE REGISTRANT AND ITS SUBSIDIARIES

Xurpas Inc. (“**Xurpas**” or the “**Company**”), a corporation duly incorporated under Philippine laws on November 26, 2001, is a technology company which creates and develops digital products and services for mobile end-users, as well as proprietary platforms for mobile operators. Xurpas provides mobile marketing and advertising solutions integrated in these consumer digital products and platforms for the consumption of mobile users. The Company is also engaged in platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services. This includes information technology (IT) staff augmentation and various enterprise solutions-based services to Telcos and other companies for network and applications development.

Today, the Company’s business units comprise of: 1) Mobile consumer products and services; 2) Enterprise solutions; and 3) Other services (HR technology services).

In 2015 and 2016, Xurpas acquired several companies to expand its portfolio of mobile technology products and services, enterprise services, and invest in companies that will aid in the distribution of the aforementioned products and services:

- In February 2015, the Company acquired a 51% controlling stake in Storm Flex Systems, Inc. (currently registered as Storm Technologies, Inc., referred herein as “Storm”), to enable Xurpas to expand beyond telecommunication networks and into corporations through offering human resource (“HR”) technology solutions. As of June 30, 2019, Xurpas owns 51% controlling stake in Storm.
- In June 2015, Xurpas acquired 70% controlling stake in Seer Technologies Inc. (“Seer”), a company engaged in software consultancy, design, development and managed services focused on mobile, cloud and data technologies. In the same month, the incorporation of Xeleb Inc. (“Xeleb”) was approved by the Securities and Exchange Commission (the “Commission”). Xeleb is engaged in the development, design, sale and distribution of celebrity-branded games and applications.
- In September 2015, the Company acquired 51% controlling stake in Yondu Inc. (“Yondu”), originally a Globe Telecom wholly owned subsidiary which is presently engaged in the development and creation of wireless products and services accessible through telephones or other forms of communication devices and media networks. It also provides internet and mobile value-added services, and information technology and technical services including software development and related services.
- Xurpas Enterprise Inc. (“Xurpas Enterprise”) was incorporated in March 2016. Xurpas Enterprise was created to primarily engage in the business of software development including designing, upgrading, and marketing all kinds of information technology systems to corporate clients. In the same month, the Company acquired 23.53%

ownership in Micro Benefits Limited (“Micro Benefits”), a company registered in Hong Kong. Micro Benefits is engaged in the business of providing employee benefits to Chinese workers through its operating company, Micro Benefits Financial Consulting (Suzhou) Co. Ltd, China.

- On October 6, 2016, Xurpas acquired 100% stake in Art of Click Pte. Ltd (“AOC”), a company registered under the laws of Singapore and engaged in the business of mobile media advertising that offers a marketing platform for advertisers.

In 2016, Xurpas increased its shareholdings in Xeleb Technologies Inc. (formerly Fluxion, Inc.) (“Xeleb Technologies”) from 65% to 67%. Xeleb Technologies, and its wholly owned subsidiary, Xeleb, develops digital products and services, with a particular focus on celebrity-branded and themed mobile Casual Games and Content for consumers.

On April 27, 2018, ODX Pte. Ltd. was incorporated in Singapore. The said entity aims to allow consumers in emerging markets to access the internet for free, through sponsored data packages.

In 2018, the Company has disclosed that it will evaluate its current businesses and implement measures to regain its profitability. On September 11, 2019, the Company disclosed the following matters which were approved by the Board of Directors:

a. Sale of 51% of Yondu Inc.

Xurpas sold 22,950 common shares in Yondu Inc. at a purchase price of Php501,251,673.70. With the sale of Yondu, the Company will be able to focus on its existing businesses. For its enterprise business, the Company will focus on high-value, emerging, innovative and disruptive technologies and platforms that will affect both enterprise and consumer commerce. The Company will likewise pursue strategic alliances for digital advertising and HR related services.

The Company’s financial condition will be materially affected considering that substantial revenues of the Group is attributed to Yondu's performance. Regardless, Xurpas' Management considers the sale strategic taking into account its ongoing corporate restructuring. Moreover, Xurpas Management considers the sale necessary taking into account Xurpas' current financial condition.

A substantial amount of the proceeds from the sale of Yondu will be used to retire existing debt obligations. The balance of the proceeds will be used for working capital and other corporate purposes.

b. Dissolution of Xeleb Technologies Inc. and Xeleb Inc.

The Group’s mobile consumer revenues declined when its partner telco-provider implemented new rules requiring stricter opt-in procedure for all of its VAS Providers.

On September 11, 2019, the Board of Directors of the Corporation approved to dissolve Xeleb Technologies Inc. and Xeleb Inc. The said dissolution will result in a one-time recognition of loss on investment.

The Company wish to emphasize that all existing operations of Xeleb Technologies Inc. and Xeleb Inc. will still be continued by the parent company.

PRODUCTS AND SERVICES

The Company and its subsidiaries (the “**Group**”) categorizes its product offerings in accordance with the following segments:

Mobile Consumer Services

Mobile Consumer Services includes airtime management, content development and management, and marketing and advertising solutions. The Company creates and develops mobile consumer content and other value-added services for mobile phone subscribers such as online casual games, info-on-demand services (e.g., news, social and other entertainment information), chat and messaging applications (e.g., mobile stickers), ringtones, licensed or unlicensed content such as music, videos, as well as mobile marketing and advertising solutions. In addition, for its online casual games (e.g. Grab-a-Gold, GlobeGameswithFriends and PlaySmart) and mobile casual game applications (e.g. Run Super V and Anne Galing!), each of which has been tailored to an internet and online consumer base, the Company develops and maintains its own platforms that host and enable mobile subscribers to access or use such products. The provision of these products and services for end-users is performed by the Company’s mobile consumer content and services segment.

Enterprise Services

The Company develops, on its own or in close collaboration with other technology companies, mobile platform solutions for the benefit of clients such as Telcos, government agencies, and other top-tiered companies. These products, which are tailored to a client’s particular requirements and are used by millions of mobile subscribers at any given time, comprise the Company’s enterprise services segment and include mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce.

The Company, through its subsidiaries, develops and customizes information technology platforms, provides system integration, mobile platform consultancy, manages off-the-shelf application and social media-related services.

Enterprise Services also includes information technology staff augmentation and various enterprise solutions-based services to Telcos and other companies for network and applications development.

Other Services

The Company, through its subsidiary Storm, provides HR technology solutions to its clients. Storm developed a proprietary online platform which allows employees of any company that has signed with Storm to exchange his or her current employee benefits and transform them into products and services such as mobile phones, gadgets, or financial training services, called 'Flex Ben.' Storm also offers the same service for employees who are rewarded with points for accomplishing set milestones or objectives by their employer. The Company's subsidiary designs, develops, and customizes the HR technology platforms and streamlines the logistical requirements for product and service fulfillment.

Blockchain Technology

In 2018, the Company announced the incorporation of its wholly owned subsidiary, ODX Pte. Ltd. ("ODX"), an entity registered in Singapore, that will allow consumers in emerging markets to access the internet for free, through sponsored data packages. ODX pre-sold tokens and the proceeds from the said sale will be used to start building the ODX infrastructure and for business development.

COMPETITION

For its mobile consumer content development business, the Company competes with over 100 mobile consumer content providers. However, the Company believes that its primary competitors comprise the internal mobile consumer content development divisions of its own client Telcos and other companies such as Information Gateway, Inc., ABS-CBN Mobile, GMA New Media, Inc., G- Gateway, Zed, Wolfpac and Rising Tide. Chikka Philippines, Inc. is the mobile consumer content development division of Smart Communications and generates and provides the latter with mobile consumer content and services. On the other hand, ABS-CBN Mobile and GMA New Media, Inc. primarily provide access or subscription to licensed or unlicensed content such as music, videos and other content of similar nature associated with, produced or distributed by their affiliated mass media networks. For its mobile marketing and advertising solutions business, the Company considers the following as competitors: TradeMob, Fiksu, Mobvista, Glispa, and Avazu.

For its enterprise development business, which includes Seer, the Company considers Stratpoint, Pointwest, and Novare, as its main competitors, providing outsourced web and mobile applications development services or cloud services for their clients.

For the Company's other services, which refers to the flexible benefits and performance benefits business of Storm, the main competitor is Takatack Rewards, Towers Watson, Mercer, Venteny, Kudos Canada, Globoforce, and My Checkpoints.

RELIANCE ON THIRD PARTIES

As a mobile telecommunications value-added services provider, the Company relies on the transmission, switching and local distribution facilities of Telcos to which it provides mobile digital content and services. The Telcos own, operate and maintain these transmissions, switching and local distribution facilities and the Company itself does not have any right to

participate or intervene in the operation or maintenance thereof. In 2018, the Company's business was severely affected when Globe Telecom, Inc. implemented new and stricter opt-in guidelines for customers who sign up for VAS subscription. The Company's revenue from its mobile consumer services significantly declined as a result of this. The Company has disclosed that it is strengthening and enhancing its enterprise services and HR technology services in light of the ongoing challenges in its mobile consumer segment.

INTELLECTUAL PROPERTY

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

Platforms

- Key intellectual property of the Company includes the Griffin SMS Gateway program, which is a proprietary platform developed by the Company through which the Company deploys mobile applications through any telecommunications network protocol. The Griffin SMS Gateway program is built on a modular architecture and is written in Java, an industry standard programming language that allows the program to be deployed using most common operating systems, with the following key features:
 - The Griffin SMS Gateway allows the Company to connect to any of its client Telco's SMS center, which represents the heart of any Telco's wireless network handling all SMS operations, such as routing, forwarding and storing SMS messages, using popular protocols.
 - The Griffin SMS Gateway contains a "Multi-Function Middleware" feature that allows the Company to interface with its client Telco's "Intelligent Network", which is the network that allows a Telco to offer value-added services to its mobile subscribers on top of its standard services (voice and call services) through UCIP or Diameter, MMSCs via MM7, or billing systems via proprietary SOAP-XML or other proprietary HTTP-based protocols.
 - The Java API of the Griffin SMS Gateway allows the Company's application developers to write code that can easily be integrated or deployed across multiple carriers that may have different systems.

Trademarks

The Company likewise owns exclusive rights to its corporate name, as well as various brand names and marks that are used for its operations. Provided below is the summary of all marks registered in the name of the Company or any of its subsidiaries:

Holder	Mark	Registration Number	Date Filed	Date Registered
Xurpas Inc.	SELFIE.PH	42014009255	July 25, 2014	June 25, 2015
Xurpas Inc.	GRAB-A-GOLD	42014009260	July 25, 2014	December 11, 2014
Xurpas Inc.	FLUXION	42014009259	July 25, 2014	December 11, 2014
Xurpas Inc.	PLAYSMART	42014009254	July 25, 2014	December 11, 2014
Xurpas Inc.	#SWAG	42014009261	July 25, 2014	February 12, 2015
Xurpas Inc.	#TBT	42014009258	July 25, 2014	December 11, 2014
Xurpas Inc.	#SELFIE	42014009257	July 25, 2014	December 11, 2014
Xurpas Inc.	Xurpas	42007004775	May 11, 2007	October 8, 2007
Xurpas Inc.	Xurpas	42017003342	March 8, 2018	October 5, 2017
Xurpas Inc.	Xurpas	42017003343	March 8, 2017	June 29, 2017
Xurpas Inc.	Art of Click	42017003340	March 8, 2017	August 31, 2017
Xurpas Inc.	Seer	42017003341	March 8, 2017	August 31, 2017
Xurpas Inc.	XE	42017003346	March 8, 2017	August 31, 2017
Xurpas Inc.	AppXentral	42017003344	March 8, 2017	June 29, 2017
Xurpas Inc.	Xurpas Enterprise	42017003345	March 8, 2017	June 29, 2017
Xurpas Inc.	Xupergames	42016004317	April 25, 2016	October 20, 2016
Xurpas Inc.	Balikbayan Box It	42017017366	August 12, 2018	October 26, 2017
Xurpas Inc.	Xuper Tsikot	42017017362	October 26, 2017	March 29, 2018
Xurpas Inc.	Supernova Escape	42017017365	October 26, 2017	March 29, 2018
Xurpas Inc.	Beast Mode On	42017017363	October 26, 2017	March 29, 2018
Xurpas Inc.	Kumander Kuting	42017017364	October 26, 2017	March 29, 2018
Xurpas Inc.	MAKEFREE	42017018310	December 19, 2018	May 5, 2019
Xurpas Inc.	ODX	42018008396	May 21, 2018	May 12, 2019
Xurpas Inc.	X	42018008395	May 21, 2018	May 12, 2019

KEY LICENSES

The Company's primary business, that is, the development and delivery of mobile consumer content to its client Telcos, is considered as a form of value-added services regulated by the NTC under the Public Telecommunications Policy Act and related implementing regulations issued by the NTC. The Company holds a VAS License issued by the NTC valid until January 3, 2021, pursuant to which the Company is authorized to engage in all of the foregoing value-added services.

EMPLOYEES

The Company believes that its relationship with its employees is generally good and, since the start of its operations, the Company has not experienced a work stoppage as a result of any labor or labor-related disagreements. None of the Company's employees belong to a union. The Company has implemented cost-cutting measures to manage its day to day operations taking into account the challenges encountered by its mobile consumer services segment.

The table below sets forth the breakdown of the Company's labor complement, grouped according to function, as of December 31, 2018:

Executives.....	3
Accounting, Finance, Human Resources and Administrative.....	14
Marketing.....	9
Technical Staff.....	<u>36</u>
Total.....	<u>62</u>

As of date, the Company does not see any material change from the above-identified labor complement for the next twelve (12) months.

KEY RISKS

The Company considers the following risks material to its operations:

- **Reliance on third party transmission and distribution infrastructure.** In 2018, the Company's business was severely affected when Globe Telecom, Inc. implemented new and stricter opt-in guidelines for customers who sign up for VAS subscription. The Company has disclosed that it is strengthening and enhancing its enterprise services and HR technology services in light of the ongoing challenges in its mobile consumer segment.
- **Short Term Agreement with Telcos.** The Company's existing content provider agreements with its client Telcos are generally short-term in nature, with terms ranging from one to five years. In each case, there is no guarantee that such agreements will be renewed upon expiration thereof. Nevertheless, to mitigate reliance on its existing content provider agreements with such Telcos, the Company has acquired/invested in

several foreign entities to expand its mobile operator client base to Telcos or other mobile operators outside the Philippines.

- **Ability to maximize and adapt to new technologies.** The Company has disclosed that its acquisition and investment in various technology entities is aimed at creating platforms that offers a marketplace of technology products that consumers can choose from. The Company has equipped itself with various technologies to create the necessary platforms it can offer to the consumers. The Company's success will depend on its ability to maximize the potentials of these acquired technologies. Moreover, since the technology industry continues to develop at a robust pace, the Company will need to consider as part of its growth strategy that these technologies will need to be consistently updated, enhanced or developed to minimize risk on these becoming obsolete or impractical.

PROPERTIES

The Company does not hold any real property of material value. The Group has entered into various lease agreements with third parties for the office space it occupies.

The Company's (*parent company*) offices are presently located at 7th Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City, Philippines, which is leased by the Company from Gervel, Inc. The lease contract is for a period of three (3) years commencing on April 1, 2017 and expiring on March 21, 2020. The applicable rate per month is Php0.27 million, with a corresponding annual increase of 4%.

See Note 20 of the Unaudited Consolidated Financial Statements as of June 30, 2019 for the Operating Lease Commitments of the Group.

LEGAL PROCEEDINGS

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

II. MARKET PRICE AND DIVIDENDS

A. Market Information

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

The following table shows the high and low prices (in PHP) of Xurpas' shares in the PSE for the year 2018, 2017 and 2016 and the 1st and 2nd quarters of 2019:

	High	Low
2019		
1 st Quarter	2.33	1.09
2 nd Quarter	1.37	0.91
3 rd Quarter	1.04	0.87
2018		
1 st Quarter	5.93	3.10
2 nd Quarter	3.92	3.00
3 rd Quarter	3.72	2.02
4 th Quarter	2.39	1.04
2017		
4 th Quarter	5.94	3.10
3 rd Quarter	9.07	5.20
2 nd Quarter	10.54	7.40
1 st Quarter	10.50	7.09
2016		
4 th Quarter	15.12	7.11
3 rd Quarter	18.18	13.38
2 nd Quarter	20.00	14.80
1 st Quarter	18.90	11.40
1 st Quarter	12.60	9.30

The market capitalization of the Company's common shares as of end-2018, based on the closing price of ₱1.72/share, was approximately ₱3.22 billion versus ₱10.05 billion the previous year.¹⁶

The price information of Xurpas' common shares as of the close of the latest practicable trading date, September 30, 2019, is ₱0.93.

B. Holders

There are twenty six (26) registered holders of common shares, as of September 6, 2019 (based on number of accounts registered with the Stock Transfer Agent)¹⁷.

¹⁶ Xurpas has 1,871,830,210 common shares outstanding as of August 31, 2019.

¹⁷ Based on the list of stockholders issued by BDO Unibank Inc. Stock and Investment Group; list includes PCD Nominees

	Stockholder's Name	Number of shares	Percentage to total	Nationality
1.	PCD Nominee Corp. (Filipino) ¹⁸	1,414,395,803	73.10	Filipino
2.	PCD Nominee Corp. (Non-Filipino)	292,459,234	15.11	Others
3.	Raymond Gerard S. Racaza	174,100,010	9.00	Filipino
4.	Nelson Gatmaitan	400,000	0.02	Filipino
5.	Emilie Grace S. Nollo	251,889	0.01	Filipino
6.	Xurpas Inc.	53,298,242	2.75	Filipino
7.	Aquilina V. Redo	6,500	0	Filipino
8.	Rogina C. Guda	6,000	0	Filipino
9.	Dahlia C. Aspillera	2,900	0	Filipino
10.	Mercedita S. Nollo	1,060	0	Filipino
11.	Wilfredo O. Racaza	1,060	0	Filipino
12.	Roberto B. Redo	1,000	0	Filipino
13.	Shareholders' Association of the Philippines, Inc.	1,000	0	Filipino
14.	Frederick D. Go	500	0	Filipino
15.	Dondi Ron R. Limgenco	111	0	Filipino
16.	Marietta V. Cabreza	100	0	Filipino
17.	Milagros P. Villanueva	100	0	Filipino
18.	Myra P. Villanueva	100	0	Filipino
19.	Myrna P. Villanueva	100	0	Filipino
20.	Philip &/or Elnora Turner	99	0	British-Indian
21.	Fernando Jude F. Garcia	10	0	Filipino
22.	Jonathan Gerard A. Gurango	10	0	Filipino
23.	Alvin D. Lao	10	0	Filipino
24.	Nico Jose S. Nollo	10	0	Filipino
25.	Owen Nathaniel S. AUITF: Li Marcus Au	3	0	Filipino
26.	Joselito T. Bautista	1	0	Filipino
	Total	1,934,925,852	100%	Filipino

C. Dividends and Dividend Policy

Dividend History

Information on the Company's declaration of dividends follow:

¹⁸PCD Nominee Corp. (Filipino) includes shares of a) Mr. Nico Jose S. Nollo; b) Raymond Gerard S. Racaza; and c) Fernando Jude F. Garcia. We note that a portion of shares of Messrs. Nollo, Racaza and Garcia are not yet listed with the Exchange, but are included in PCD Nominee Corp. (Filipino). Further, PCD Nominee Corp. (Filipino) includes treasury shares.

Parent Company	Per Share	Total Amount	Record Date	Payable Date
Cash dividend declared on:				
May 8, 2017	0.05	92.85 million	May 23, 2017	June 15, 2017
May 10, 2016	0.048	86.27 million	May 31, 2016	June 23, 2016
April 29, 2015	0.40	68.80 million	May 14, 2015	June 2, 2015
September 20, 2014	0.56	36.00 million	June 30, 2014	September 30, 2014
June 5, 2014	0.47	30.25 million	December 31, 2013	June 30, 2014
November 18, 2013	5.13	16.67 million	September 30, 2013	November 29, 2013
July 22, 2013	1.03	3.33 million	June 30, 2013	July 31, 2013
May 6 2013	0.83	2.70 million	December 31, 2012	May 31, 2013
March 13, 2013	3.08	10.00 million	December 31, 2012	March 31, 2013
Stock dividend declared on:				
July 10, 2014	0.95 shares	61.25 million	September 20, 2014	September 20, 2014
May 5, 2014	18.85 shares	61.25 million	May 5, 2014	May 5, 2014

Dividend Policy

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

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

D. Recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction

1. Overnight Top-up Placement – April 26, 2016

On April 26, 2016, the Board of Directors of Xurpas approved the holding of a Placing and Subscription Transaction (“the Overnight Top-up Placement”) wherein Messrs. Nico Jose S. Nollo, Raymond Gerard S. Racaza and Fernando Jude F. Garcia (the “Selling Shareholders”) sold an aggregate of 155,400,000 common shares (the “Offer Shares”) to investors (the “Placing tranche”) and the Selling Shareholders subscribed to an aggregate of 77,700,000 common shares (the “Subscription Shares”) or 4.32% of the new issued and outstanding capital shares of the Company (“Subscription tranche”).

The first part of the Overnight Top-up Placement consists of the offer and sale of the Offer Shares by the Selling Shareholders to (i) Qualified institutional investors in the Philippines qualified as an exempt transaction in reliance on Section 10.1(c) and 10.1(l) of the Philippine Securities Regulation Code (the “SRC”); (ii) outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the “Securities Act”); and (iii) within the United States to “qualified institutional buyers” as defined in, and in reliance on, Rule 144A under the Securities Act. SB Capital Investment Corporation and Decker & Co., LLC are the Joint Global Coordinators and led the selling syndicate in placing the Offer Shares with investors.

The second part of the Overnight Top-up Placement consists of the subscription by each Selling Shareholder to 1.4% of the Company’s total issued and outstanding capital shares, in the form of new shares issued out of the authorized capital stock of the Company at a subscription price equivalent to the Offer Price. Xurpas claimed exemption from registration under Section 10.1(e) and (k) of the Securities and Regulation Code.

2. Acquisition of Art of Click Pte. Ltd (“AOC”) – October 6, 2016

On October 6, 2016, Xurpas signed a Share Purchase Agreement with Emmanuel Michel Jean Allix and Wavemaker Labs Pte. Ltd. (the “Sellers”) for the acquisition of 100% shares in AOC for an aggregate consideration of ₱1.40 billion in cash and in Xurpas shares. AOC 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 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 Xurpas’ 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.

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 Xurpas their respective proportionate share in the Sale Shares. This was subsequently waived.

On June 2017, amendments were made to the share purchase agreement with one of the sellers, Emmanuel Michel Jean Allix (“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.

On July 18, 2017, Xurpas reacquired 53,298,242 common shares Upfront Payment issued at acquisition date to Allix, a former shareholder of AOC, for a consideration of US\$532,983 or 26.65 million.

On October 3, 2017, Xurpas 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, there will be 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. Three shareholders of Xurpas sold their shares to Wavemaker, as an advance on behalf of Xurpas. The said shareholders, then subscribed to an aggregate of 67,285,706 Xurpas shares to replace the shares already advanced. Xurpas is claiming exemption from registration under Section 10.1(k) of the Securities and Regulation Code.

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.

On October 3, 2017, Allix and Wavemaker executed a waiver of the second and third tranches of the Deferred Purchase Consideration. The Sellers also waived their call option on the shares.

III. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following are the Company's percentage ownership in its subsidiaries and associates as of June 30, 2019:

	Percentage of Ownership
Xeleb Technologies Inc. (formerly Fluxion, Inc.)	67.00%
Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.)	51.31%
Pt. Storm Benefits Indonesia	51.31%
Xeleb Inc.	67.00%
Seer Technologies Inc.	70.00%
Codesignate Inc.	52.50%
Yondu Inc.	51.00%
Rocket Search Inc. (formerly Yondu Software Labs Inc.)	51.00%
Xurpas Enterprise Inc.	100.00%
Art of Click Pte. Ltd.	100.00%
PT Sembilan Digital Investama	49.00%
MatchMe Pte. Ltd.	29.10%
Micro Benefits limited	23.53%
Altitude Games Pte. Ltd	21.78%
Altitude Games Inc.	21.17%

First Half of 2019 compared with First Half of 2018

Financial Summary

Key Financial Data In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	569.09	89%	379.42	62%	189.68	50%
Mobile consumer services	19.07	3%	187.31	31%	(168.25)	-90%
Other services	51.99	8%	42.74	7%	9.25	22%
Total Revenues	640.15	100%	609.47	100%	30.68	5%
Cost of Services	462.59	72%	483.84	79%	(21.24)	-4%
Cost of Goods Sold	40.08	6%	28.90	5%	11.18	39%
Gross Profit	137.47	21%	96.74	16%	40.74	42%
General and Administrative Expenses	214.47	34%	243.54	40%	(29.07)	-12%
Equity in Net Loss of Associates	7.53	1%	21.75	4%	(14.22)	-65%
Other charges - net	20.27	3%	20.27	3%	-	0%
Loss Before Income Tax	(104.80)	-16%	(188.82)	-31%	84.02	-44%
Provision for (Benefit from) Income Tax	10.55	2%	(45.17)	-7%	55.72	-123%
Net Loss	(115.36)	-18%	(143.65)	-24%	28.29	-20%
Other Comprehensive Income	7.29	1%	16.36	3%	(9.07)	-55%
Total Comprehensive Loss	(108.07)	-17%	(127.29)	-21%	19.23	-15%

	June 30, 2019 Amount	December 31, 2018 Amount	Amount Change	% Increase (Decrease)
Total Assets	5,121.37	4,966.57	154.81	3%
Total Liabilities	1,755.27	1,499.98	255.29	17%
Total Equity	3,366.11	3,466.58	(100.47)	-3%

Total revenues increased by ₱30.68 million or 5%, from ₱609.47 million in the first half of 2018, to ₱640.15 million for the comparable period in 2019. Group revenues were still mainly driven by enterprise services, comprising 89% of the total revenue, compared to 62% in the 1H2018.

The blended cost of services decreased by 4% from ₱483.84 million for the six-month period ended June 30, 2018 to ₱462.59 million for the comparable period in 2019. Cost of goods sold attributable to other services was ₱40.08 million for the six-month period ended June 30, 2019 compared to ₱28.90 million in the same period in 2018, an increase of 39% or ₱11.18 million.

Gross profit margins on total revenues, for the period ended June 30, 2019 is at 21%, an increase from the same period last year at 16%. Gross profit increased by 42% from ₱96.74 million for the first half of 2018 to ₱137.47 million for the same period in 2019.

General and administrative expenses decreased by 12%, from ₱243.54 million for the first half of 2018 to ₱214.47 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 ₱7.53 million for the six-month period ended June 30, 2019; a 65%

improvement from the ₱21.75 million share in net loss of the associate companies for the first half of 2018.

Loss before income tax improved by 44% from ₱188.82 million for the first half of 2018 to ₱104.80 million for the same period in 2019.

Provision for income taxes during the first half of 2019 amounted to ₱10.55 million (without the utilization of deferred tax assets), while benefit from income tax amounting to ₱45.17 million was recognized in the same period in 2018. (If there was no utilization of deferred tax assets in 2018, the comparable provision for tax was ₱12.63 million.) Overall, the net loss for the Group decreased from ₱143.65 million for the first half of 2018 to ₱115.36 million over the same period in 2019; a decrease of 20%.

Consolidated total assets as of June 30, 2019 amounted to ₱5,121.37 million, an increase of 3% from ₱4,966.57 million as of December 31, 2018. Consolidated total liabilities increased by 17% from ₱1,499.98 million as of December 31, 2018 to ₱1,755.27 million in June 30, 2019, due mainly to the increase in accounts and other payables. Consolidated total equity decreased by 3% over the same period, from ₱3,466.58 million to ₱3,366.11 million, resulting from the net loss incurred during the period.

Segment Financial Performance

For the 6-month period ended June 30, 2019 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	20.24	578.15	1.93	(10.23)	590.10
Revenue from sale of goods	-	-	50.05	-	50.05
Total Service Revenues	20.24	578.15	51.98	(10.23)	640.15
Operating expenses	110.35	533.30	73.74	(0.24)	717.15
Equity in net loss of associates	-	-	-	7.53	7.53
Other charges - net	8.90	2.63	5.02	3.73	20.27
Total Expenses	119.25	535.92	78.76	11.02	744.95
Operating Income (Loss)	(99.01)	42.23	(26.77)	(21.25)	(104.80)
Provision from income tax	(0.03)	(14.52)	(0.00)	4.00	(10.55)
Net Income (Loss)	(99.04)	27.71	(26.78)	(17.25)	(115.36)

For the six-month period ended June 30, 2019, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱20.24 million, ₱99.01 million and ₱99.04 million, respectively. Enterprise services had an operating income of ₱42.23 million and net income of ₱27.71 million from revenues of ₱578.15 million. The other services segment had revenues of ₱51.98 million, ending up with an operating loss and net loss of ₱26.77 million and ₱26.78, respectively.

Profitability

For the six-month period ended June 30, 2019 compared with the six-month period ended June 30, 2018

Revenues

The consolidated revenues of the Group for the six-month period ended June 30, 2019 amounted to ₱640.15 million, an increase of 5% from ₱609.47 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

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	569.09	89%	379.42	62%	189.68	50%
Mobile consumer services	19.07	3%	187.31	31%	(168.25)	-90%
Other services	51.99	8%	42.74	7%	9.25	22%
Total Revenues	640.15	100%	609.47	100%	30.68	5%

Revenues from enterprise services (which accounts for 89% of total revenues) increased by 50% in June 30, 2019, to ₱569.09 million from ₱379.42 million in June 30, 2018. On the other hand, revenues from the mobile consumer services segment for the six-month period ended June 30, 2019 amounted to ₱19.07 million, a decrease of 90% from the previous year’s same period level of ₱187.31 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 ₱51.99 million in the first half of 2019, higher by 22% from the previous level at ₱42.74 million over the same period last year.

Expenses

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	462.59	65%	483.84	64%	(21.24)	-4%
Cost of Goods Sold	40.08	5%	28.90	4%	11.18	39%
General and Administrative Expenses	214.47	30%	243.54	32%	(29.07)	-12%
<i>Total Expenses</i>	717.15	100%	756.27	100%	(39.12)	-5%

The Group's consolidated expenses during the six-month period ended June 30, 2019 amounted to ₱717.15 million, a 5% decrease from the same period of the previous year at ₱756.27 million. For the first half of 2019, cost of services accounted for the bulk of expenses, totaling ₱462.59 million or 65% of the Group's consolidated expenses. For the same period in 2018, cost of services amounted to ₱483.84 million, which comprised 64% of overall expenses.

Cost of Services

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	349.40	76%	314.50	65%	34.90	11%
Segment fee and network costs	58.35	13%	18.60	4%	39.76	214%
Depreciation and amortization	18.33	4%	16.93	3%	1.40	8%
Others	36.51	7%	133.81	28%	(97.30)	-73%
<i>Total Expenses</i>	462.59	100%	483.84	100%	(21.24)	-4%

Cost of services totaling ₱462.59 million as of June 30, 2019, was mainly driven by expenses relating to salaries, wages, and employee benefits. Of the total cost of services for the period, 75% is attributable to Yondu.

Cost of Goods Sold

For six-month period ended June 30, 2019, cost of goods sold took up 5% of the Group's consolidated expenses, amounting to ₱40.08 million. This figure was an increase of 39% from its level at ₱28.90 million in June 30, 2018. The increase in cost of goods sold is directly attributable to the increase in revenues of Storm Technologies.

General and Administrative Expenses

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	111.77	52%	121.59	50%	(9.83)	-8%
Depreciation and amortization	27.44	13%	14.42	6%	13.01	90%
Outsourced services	14.34	7%	16.32	7%	(1.98)	-12%
Others	60.92	28%	91.21	37%	(30.28)	-33%
<i>Total Expenses</i>	214.47	100%	243.54	100%	(29.07)	-12%

General and administrative expenses relating to the Group's operations, for the first half of 2019 amounted to ₱214.47 million, lower by 12% compared to previous year's same period level of ₱243.54 million. Salaries, wages, and employee benefits was ₱111.77 million or 52% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱121.59 million for the same period in 2018. The next biggest cost component in June 30, 2019 was depreciation and amortization amounting to ₱27.44 million or 13% of total GAEX. Of the total GAEX for the period, 64% is attributable to Yondu.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the six-month period ended June 30, 2019, amounted to ₱7.53 million; 65% lower than the ₱21.75 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 six-month period ended June 30, 2019 and the significant reduction in the loss of Microbenefits over the period.

Other Charges – net

For the first half of 2019, the Group recognized other net charges amounting to ₱20.27 million. This account mainly pertains to interest expense, foreign exchange gains and losses and bank charges.

Loss before Income Tax

The Group's net loss before taxes for the six-month period ended June 30, 2019 was ₱104.80 million. The net loss before taxes for the Group declined by 44% or ₱84.02 million from the same period ended June 30, 2018, which posted a figure of ₱188.82 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 six-month period ended June 30, 2019 amounting to ₱10.55 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 June 30, 2019, changes in unrecognized DTA amounted to ₱36.09 million.

For the six-month period ended June 30, 2018, the Group recognized benefit from income tax amounting to ₱45.17 million.

Net Loss

The Group posted a consolidated net loss of ₱115.36 million for the six-month period ended June 30, 2019, a decrease of 20% from the previous year's same period at ₱143.65 million.

Pro-forma net loss showing a 43% improvement is shown below had the Group opted not to recognize DTA in the same period in 2018:

In PhP Millions	For the six-month period ended June 30	
	2019	2018
	Amount	Amount
Loss before income tax	(104.80)	(188.82)
Provision for income tax	10.55	12.63
Net Loss	(115.36)	(201.45)

Total Comprehensive Income (Loss)

As of June 30, 2019, the Group's total comprehensive loss amounted to ₱108.07 million, a decrease of 15% compared to total comprehensive loss of ₱127.29 million as at June 30, 2018.

Financial Position

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

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱277.80 million as at June 30, 2019, a net increase of 57% or ₱100.41 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.

Accounts and Other Receivables

The Group's consolidated accounts and other receivables amounted to ₱533.68 million and ₱530.64 million as at June 30, 2019 and December 31, 2018, respectively, representing an increase of ₱3.04 million. In June 30, 2019, trade receivables were valued at ₱763.53 million, whereby Yondu and Art of Click account for ₱467.05 million (61% of the total) and ₱243.80 million (32% of the total), respectively. However, against the total accounts receivables of ₱796.47 million there was an allowance for impairment/doubtful accounts amounting to ₱262.79 million, resulting to the net receivables of ₱533.68 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 ₱20.16 million as of June 30, 2019, an increase of ₱10.41 million or 107% from its previous level on December 31, 2018 at ₱9.75 million.

Other Current Assets

The Group's consolidated other current assets totaled ₱65.32 million as of June 30, 2019, an increase of ₱7.42 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 June 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 June 30, 2019, the Group's consolidated investment in associates amounted to ₱448.47 million, a 2% 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. (₱25.60 million), MatchMe (₱43.64 million), PT Sembilan Digital Investama (₱12.41 million), and Micro Benefits Limited (₱366.82 million).

Property and Equipment

The Group's consolidated property and equipment was ₱114.69 million in June 30, 2019 vis-à-vis ₱59.52 million in December 31, 2018, or an increase of 93%. This was the net result of additions worth ₱11.38 million, addition resulting from adoption of PFRS 16 amounting to ₱73.49 million, disposals during the period amounting to ₱2.11 million and depreciation expense amounting to ₱27.58 million for the six-month period ended June 30, 2019. 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 ₱3,594.48 million as at June 30, 2019 were recognized in relation to the Group's acquisitions and investments. The amortized amount was ₱18.44 million or 1% lower than the December 31, 2018 figure at ₱3,612.92 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of June 30, 2019, goodwill is at ₱2,399.76 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 June 30, 2019, customer relationship is valued at ₱1,077.81 million.
- 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 June 30, 2019, developed software net book value is at ₱105.37 million. Amortization of developed software for the six-month period ended June 30, 2019 amounted to ₱16.94 million.
- Cryptocurrencies pertain to units of Bitcoin and Ethereum held by the Group as at June 30, 2019 valued at ₱4.00 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of June 30, 2019, leasehold rights net book value is at ₱7.54 million. Amortization of leasehold rights for the six-month period ended June 30, 2019 amounted to ₱1.24 million.

Pension Asset

The Group's recorded pension asset is at ₱1.41 million in June 30, 2019, which was unchanged from its levels in December 31, 2018.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱14.19 million as at June 30, 2019, which was the same level as at December 31, 2018.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱50.70 million as of June 30, 2019. This figure is 9% higher than the value posted as of December 31, 2018 at ₱46.37 million. These are primarily rental and other deposits amounting to ₱25.74 million and ₱24.96 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱775.18 million as at June 30, 2019 was a 18% or ₱120.66 million increase from its December 31, 2018 figure of ₱654.52 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱240.54 million (₱91.26 million accounted for by Art of Click and ₱120.72 million from Yondu), payable to

related parties at ₱102.19 million (from Xurpas, as payable to directors and officers), accrued expenses at ₱99.38 million (₱86.86 million from Yondu), nontrade payables at ₱55.17 million, taxes payable at ₱36.74 million, deferred output VAT at ₱35.61 million and other payables at ₱205.55 million.

Loans Payable

The Group recorded ₱333.14 million in current loans in June 30, 2019 and ₱358.74 million in December 31, 2018. This is mainly attributable to the loans of the Group which are interest-bearing and short-term.

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 June 30, 2019 amounted to ₱53.54 million, an increase of 20% from the December 31, 2018 figure of ₱44.50 million.

Income Tax Payable

The Group's consolidated income tax payable as at June 30, 2019 amounted to ₱8.69 million, an increase of 297% from the December 31, 2018 figure of ₱2.19 million.

Other Current Liabilities

The Group's other current liabilities amounted to ₱63.45 million in June 30, 2019 compared to ₱63.75 million in 2018, a decrease of 0.5%.

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 June 30, 2019 and December 31, 2018, respectively.

Advances from stockholders – net of current portion

This account pertains to the loan agreement entered into by the Parent Company on April 29, 2019 with its founders amounting to ₱150.00 million, subject to 5.50% interest rate per annum payable in three (3) years from date of agreement.

Deferred Tax Liability - net

As of June 30, 2019, the deferred tax liability (net) was at ₱347.73 million, a decrease of 1% or ₱5.00 million from ₱352.73 million as of December 31, 2018. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

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

Equity

Total Equity

The Group's total equity as of June 30, 2019 was at ₱3,366.11 million, a 3% decrease from its December 31, 2018 level at ₱3,466.58 million. The net decrease in total equity was a result of the net loss incurred by the Group during the period. Retained earnings decreased by ₱118.28 million or 21% in June 30, 2019.

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 the Parent Company and Seer 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 6 months ended June 30	
	2019	2018
	Amount	Amount
Net cash provided by (used in) Operating Activities	(25.59)	(117.12)
Net cash provided by (used in) Investing Activities	(11.81)	(10.85)
Net cash provided by (used in) Financing Activities	131.18	65.10
Effect of foreign currency exchange changes in cash	6.62	27.10
Net increase (decrease) in cash	100.40	(35.77)
Cash at beginning of period	177.40	215.25
Cash at end of period	277.80	179.49

Cash Flows Provided by Operating Activities

For the first half of 2019, operating loss of ₱30.82 million was coupled with the corresponding increase in account receivables and account payables for a resulting ₱2.09 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱25.59 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for the first half of 2019 was ₱11.81 million compared to ₱10.85 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 six-month period ended June 30, 2019 was ₱131.18 million; compared to ₱65.10 million provided for the six-month period ended June 30, 2018. The cash flow provided by financing activities were mainly from advances from stockholders amounting ₱150.00 million, payment of dividends and loans.

Capital Expenditure

The Group's capital expenditures for the six-month period ended June 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	June 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 six-month periods ended June 30		For the year ended December 31
	2019	2018	2018
Liquidity Ratios			
Current Ratio	73%	50%	69%
Quick Ratio	67%	46%	64%
Asset-to-Equity Ratio	197%	218%	183%
Profitability Ratios			
Net Income Margin	-18%	-22%	-62%
Gross Margin	21%	16%	9%
Operating Margin	-6%	-24%	-46%
Return on Total Assets	-2%	-2%	-14%
Return on Equity	-29%	-4%	-22%
Debt Ratios			
Debt-to-Equity Ratio	0.68x	0.86x	0.55x
Interest Coverage Ratio	-4.61x	-13.10x	-20.45x

Current Ratios

Current Ratio and Quick Ratio in the six-month period ended June 30, 2019 were 73% and 67%, respectively, an increase from their respective 69% and 64% figures during the full year of 2018. The increase in both ratios was primarily from the significant increase in current assets of the Group for that period.

Asset-to-Equity Ratio

The increase in the asset-to-equity ratio from 183% in December 31, 2018 to 197% in June 30, 2019 resulted from the decrease in equity due to net loss incurred during the period and increase in total assets as a result of increase in cash due to additional advances from stockholders and increase in property and equipment primarily due to adoption of PFRS 16.

Profitability Ratios

Profitability margins improved from December 31, 2018, due to the continuous cost-cutting initiatives of the Group. The result is an increase in Gross Profit Margin (21%), Operating Margin (-6%), and Return on Total Assets (-2%); and decrease in Net Loss Margin (18%) and Return on Equity (-29%).

Debt Ratios

Debt to Equity in June 30, 2019 was at 0.68x compared to 0.55x as at December 31, 2018. The increase in the gearing ratio was attributed to significant increase in liabilities and lower total equity value in June 30, 2019 compared to the previous year. Interest coverage ratio in June 30, 2019 was at -4.61x 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 | $\frac{\text{Current assets}}{\text{Current liabilities}}$ |
| 2. Quick ratio | $\frac{\text{Current assets} - \text{Other current assets}}{\text{Current liabilities}}$ |

Asset-to-equity Ratio

$$\frac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$$

Profitability Ratios

- | | |
|---------------------|---|
| 1. Net income ratio | $\frac{\text{Net income attributable to Parent Company}}{\text{Service income} + \text{Sale of goods}}$ |
|---------------------|---|

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

Debt Ratios

1. Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total equity attributable to Parent Company}}$
2. Interest coverage ratio	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines 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. The Group's financial challenges in 2018 are being addressed through the following: venture into new revenue potentials, continuing cost cutting measures, external financing with the aid of a third party financial advisor, and advances from stockholders to fund projects and general corporate purposes.

- 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.

Full Year 2018 compared with 2017

Financial Summary

Key Financial Data In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	270.86	22%	1,336.54	64%	(1,065.68)	-80%
Enterprise services	875.61	70%	667.60	32%	208.01	31%
Other services	95.72	8%	99.44	5%	(3.72)	-4%
Total Revenues	1,242.19	100%	2,103.57	100%	(861.38)	-41%
Cost of Services	1,062.87	86%	1,373.41	65%	(310.54)	-23%
Cost of Goods Sold	69.73	5%	81.01	4%	(11.28)	-14%
Gross Profit	109.59	9%	649.15	31%	(539.56)	-83%
General and Administrative Expenses	701.04	57%	572.62	27%	128.42	22%
Equity in Net Loss of Associates	52.99	4%	36.72	2%	16.27	44%
Other charges (income) - net	22.69	2%	(82.23)	-4%	104.92	-128%
Income (Loss) Before Income Tax	(667.13)	-54%	122.04	6%	(789.17)	-647%
Provision for (Benefit from) Income Tax	144.51	11%	19.47	1%	125.04	642%
Net Income (Loss)	(811.64)	-65%	102.57	5%	(914.21)	-891%
Other Comprehensive Income	8.27	0%	21.15	1%	(12.88)	-61%
Total Comprehensive Income (Loss)	(803.37)	-65%	123.72	6%	(927.09)	-749%

	December 31, 2018 Amount	December 31, 2017 Amount	Amount Change	% Increase (Decrease)
Total Assets	4,966.57	5,810.18	(843.61)	-15%
Total Liabilities	1,499.98	2,454.68	(954.70)	-39%
Total Equity	3,466.58	3,355.50	111.08	3%

Total revenues decreased by ₱861.38 million or 41% for 2018, from ₱2,103.57 million in 2017 to ₱1,242.19 million in 2018. Group revenues were mainly driven by enterprise services, comprising 70% of the total revenues. The net income of the Group for 2018, decreased by 891% (from ₱102.57 million in 2017 to a net loss of ₱811.64 million in 2018). Total comprehensive income over the same period decreased by 749% from ₱123.72 million in 2017 to a total comprehensive loss of ₱803.37 million as at 2018.

The blended cost of services (aggregating the subsidiaries' costs) decreased by 23% from ₱1,373.41 million for 2017 to ₱1,062.87 million for 2018. The outsourced services cost of AoC was the largest component of the decrease, which resulted from the drop in its revenues. Segment fee/network costs, web hosting, and royalties also decreased due to lower VAS revenues. Cost of goods sold attributable to other services was ₱69.73 million for 2018 compared to ₱81.01 million in 2017, a decrease of 14% or ₱11.28 million.

Gross profit margins on total revenues, for 2018 was at 9%, a decrease from 2017's margin of 31%. Gross profit decreased by 83% from ₱649.15 million for 2017 to ₱109.59 million for 2018.

General and administrative expenses of the Group increased by 22%, from ₱572.62 million for 2017 to ₱701.04 million for the same period in 2018. The increase was mainly due to salaries and wages, rent and outsourced services, which were partially offset by major decreases in taxes and licenses, professional fees, transportation and travel, advertising, marketing and promotions, and seminars/trainings, as part of cost cutting measures. Note that Yondu accounts for 90% of the increase in salaries and wages, a result of the continuing growth of its enterprise business. Also included in these expenses are the provisions for the impairment of receivables

and goodwill, totaling ₱310.94 million. These are recoverable at the period the receivables are collected or the financial performance of the company improves potentially reversing in whole or partial, the impairment recorded.

The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱52.99 million for 2018.

Despite incurring a loss before income tax of ₱667.13 million, the Group still recognized a provision for income tax for the year ended December 31, 2018 amounting to ₱144.51 million. The increase in provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the year.

Overall, the net income for the Group decreased from ₱102.57 million for 2017 to a net loss of ₱811.64 million in 2018.

Consolidated total assets as of December 31, 2018 amounted to ₱4,966.57 million, a decrease of 15% from ₱5,810.18 million as of December 31, 2017. Consolidated total liabilities decreased by 39% from ₱2,454.68 million as of December 31, 2017 to ₱1,499.98 million in December 31, 2018, due mainly to the settlement of payable to former shareholders of a subsidiary and the expiration of liability for written put option. Consolidated total equity increased by 3% over the same period, from ₱3,355.50 million to ₱3,466.58 million. This was a result of the new issuance of common shares and derecognition of equity reserve resulting from expiration of the written put option; coupled with the losses in 2018.

Segment Financial Performance

As of December 31, 2018 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	314.24	909.85	7.14	(77.89)	1,153.34
Revenue from sale of goods	-	-	88.85	-	88.85
Total Service Revenues	314.24	909.85	95.99	(77.89)	1,242.19
Operating expenses	1,126.78	940.47	167.13	(400.73)	1,833.65
Equity in net loss of associates	-	-	-	52.99	52.99
Other charges (income) - net	(16.59)	3.27	8.37	27.63	22.69
Total Expenses	1,110.19	943.74	175.50	(320.11)	1,909.32
Operating Loss	(795.95)	(33.89)	(79.51)	242.22	(667.13)
Provision from income tax	(5.32)	(20.77)	(25.14)	(93.28)	(144.51)
Net Loss	(801.27)	(54.66)	(104.65)	148.94	(811.64)

As of December 31, 2018, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱314.24 million, ₱795.95 million and ₱801.27 million, respectively. Enterprise services had an operating loss of ₱33.89 million and net loss of ₱54.66 million from revenues of ₱909.85 million. For 2018, although Yondu's enterprise business was profitable, this was not enough to offset the losses of the subsidiaries under this segment. The other services segment has yet to yield a positive contribution to the Group.

Profitability

For the twelve-month period ended December 31, 2018 compared with the twelve-month period ended December 31, 2017.

Revenues

The consolidated service revenues of the Group for the period ended December 31, 2018 amounted to ₱1,242.19 million, a decrease of 41% from ₱2,103.57 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 Inc. • 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"> • Xeleb Technologies Inc. • 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

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	875.61	70%	667.60	32%	208.01	31%
Mobile consumer services	270.86	22%	1,336.54	64%	(1,065.68)	-80%
Other services	95.72	8%	99.44	5%	(3.72)	-4%
<i>Total Revenues</i>	1,242.19	100%	2,103.57	100%	(861.38)	-41%

Revenues from enterprise services (which accounts for 70% of total revenues) increased by 31% in 2018, to ₱875.61 million from ₱667.60 million in 2017. On the other hand, revenues from the mobile consumer services segment for 2018 amounted to ₱270.86 million, a decrease of 80% from the previous year’s same period level of ₱1,336.54 million. This segment accounts

for 22% of the total revenues. Other services booked revenues of ₱95.72 million in 2018, lower by 4% from the previous level at ₱99.44 million over the same period last year.

Expenses

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	1,062.87	58%	1,373.41	68%	(310.54)	-23%
Cost of Goods Sold	69.73	4%	81.01	5%	(11.28)	-14%
General and Administrative Expenses	701.04	38%	572.62	28%	128.42	22%
<i>Total Expenses</i>	1,833.64	100%	2,027.04	100%	(193.40)	-10%

The Group's consolidated expenses in 2018 amounted to ₱1,833.64 million, a 10% decrease from previous year's ₱2,027.04 million. For 2018, cost of services accounted for the bulk of expenses, totaling ₱1,062.87 million or 58% of the Group's consolidated expenses. For 2017, cost of services amounted to ₱1,373.41 million or 68% of overall expenses.

Cost of Services

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	724.50	68%	639.94	47%	84.56	13%
Outsourced services	143.93	14%	463.38	34%	(319.45)	-69%
Segment fee and network costs	43.26	4%	71.15	5%	(27.89)	-39%
Others	151.19	14%	198.95	14%	(47.76)	-24%
<i>Total Expenses</i>	1,062.87	100%	1,373.41	100%	(310.54)	-23%

Cost of services totaling ₱1,062.87 million in 2018 (compared to ₱1,373.41 million for 2017 or a 23% decrease), was mainly comprised of (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Segment fee and network costs, which accounted for 68%, 14%, and 4%, respectively. Of the total cost of services for the period, 59% is attributed to Yondu. The decrease in total cost of services was mainly brought about by the decrease in the outsourced services cost of AoC, which is a consequence of the drop in its digital advertising revenues. Segment fee/network costs, web hosting, and royalties also decreased due to lower VAS revenues.

Cost of Goods Sold

For the period ended December 31, 2018, cost of goods sold took up 5% of the Group's consolidated expenses, amounting to ₱69.73 million. This figure was a decrease of 14% from its level of ₱81.01 million in December 31, 2017. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold. This led to the improved gross profit margins for Storm.

General and Administrative Expenses

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Provision for impairment losses	310.94	44%	106.54	19%	204.40	192%
Salaries, wages and employee benefits	151.96	22%	163.02	28%	(11.06)	-7%
Rent	42.09	6%	33.17	6%	8.92	27%
Others	196.05	28%	269.89	47%	(73.84)	-27%
<i>Total Expenses</i>	701.04	100%	572.62	100%	128.42	22%

General and administrative expenses relating to the Group's operations, for 2018 amounted to ₱701.04 million, higher by 22% compared to previous year's ₱572.62 million. Provision for impairment losses in 2018 amounted to ₱310.94 million or 44% of total general and administrative expenses or GAEX. Salaries, wages, and employee benefits was ₱151.96 million or 22% of the total GAEX. The same expenses amounted to ₱163.02 million in 2017.

Overall, the 22% increase in total GAEX was mainly due to the provision for impairment losses on receivables and goodwill, totaling ₱310.94 million. Details are the following: 1) provision for impairment loss related to certain receivable of Art of Click (AoC) amounting to ₱127.07 million 2) impairment of goodwill recorded for AoC amounting to ₱144.86 million and 3) provision for impairment of other receivables (as a result of the new accounting standard PFRS 9), which amounted to ₱39.01 million. These are recoverable at the period the receivables are collected or the financial performance of the company improves potentially reversing in whole or partial, the impairment recorded.

There were also decreases in salaries and wages, taxes and licenses, professional fees, transportation and travel, advertising, marketing and promotions, and seminars and trainings. The decreases in salaries and wages across some companies in the Group, is a result of cost cutting initiatives in response to the drop in revenues of certain business segments.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the period ended December 31, 2018, amounted to ₱52.99 million.

Other Income – net

For the year 2018, the Group recognized other charges amounting to ₱22.69 million; with interest expenses of ₱31.11 million, offset by interest income and gain on foreign exchange transactions.

Income (Loss) before Income Tax

The Group's loss before income taxes for period ended December 31, 2018 was ₱667.13 million. The loss before income taxes for the Group declined by 647% from December 31, 2017, which posted a figure of ₱122.04 million.

Provision for Income Tax

Despite incurring a loss before income tax, the Group still recognized a provision for income tax for the year ended December 31, 2018 amounting to ₱144.51 million, 642% higher compared to the same period in 2017 where provision for income tax amounted to ₱19.47 million. The increase in provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the year. 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 year ended December 31, 2018, changes in unrecognized DTA amounted to ₱322.77 million.

Net Income (Loss)

The Group posted a consolidated net loss of ₱811.64 million for the period ended December 31, 2018, a decrease of 891% from the previous year's same period at ₱102.57 million.

Total Comprehensive Income (Loss)

As of December 31, 2018, the Group's total comprehensive loss amounted to ₱803.37 million, a decrease of 749% compared to ₱123.72 million as at December 31, 2017.

Financial Position

As of December 31, 2018 compared to December 31, 2017

Assets

Cash

The Group's consolidated cash amounted to ₱177.40 million for the twelve-month period ended December 31, 2018, a net decrease of 18% or ₱37.86 million from consolidated cash of ₱215.25 million as at December 31, 2017.

Accounts Receivable

The Group's consolidated accounts receivable amounted to ₱530.64 million and ₱845.67 million as at December 31, 2018 and December 31, 2017, respectively, representing a decrease of ₱315.03 million or 37%. Accounts receivable in 2018 nets out the allowance for impairment amounting to ₱265.02 million.

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. As of December 31, 2018, contract assets amounted to ₱9.75 million.

Other Current Assets

The Group's consolidated other current assets totaled ₱57.90 million, a decrease of ₱0.04 million from its previous level on December 31, 2017 at ₱57.94 million. Prepaid expenses and deferred input VAT comprised majority of other current assets.

Financial Assets at FVOCI

This account pertains to quoted and unquoted equity investments previously classified as AFS financial assets but are now classified and measured as financial assets at FVOCI as a result of adoption of PFRS 9.

As of December 31, 2018, carrying value and net unrealized loss on financial assets at FVOCI recognized in the consolidated statement of financial position amounted to ₱0.48 million and ₱44.22 million, respectively.

Available for sale financial asset

Upon adoption of PFRS 9, the quoted and unquoted equity investments were reclassified as financial assets at FVOCI while the unquoted debt investments were reclassified as financial assets at FVPL in the consolidated statements of financial position. As of December 31, 2018, the resulting available for sale financial asset is nil vis-à-vis ₱159.05 million in 2017.

Investment in Associates

As of December 31, 2018, the Group's consolidated investment in associates amounted to ₱456.00 million, a 12% decrease from its figure of ₱515.66 million during December 31, 2017. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱24.34 million), MatchMe (₱43.71 million), SDI (₱10.64 million), and Micro Benefits Limited (₱377.31 million).

Property and Equipment

The Group's consolidated property and equipment was ₱59.20 million in December 31, 2018 vis-à-vis ₱76.15 million in December 31, 2017, or a decrease of 22%. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures. The decrease was due to retirement and disposal of certain equipment.

Intangible Assets

Intangible assets of ₱3,612.92 million as at December 31, 2018 were recognized in relation to the Group's acquisitions and investments. Movements in this account pertains to additions, disposal and revaluation surplus totaling to ₱16.68 million; amortization (net of disposal) of ₱32.78 million; and impairment of goodwill amounting to ₱144.86 million. These resulted to a net 4% decrease amounting to ₱160.96 million vis-à-vis the December 31, 2017 figure at ₱3,773.88 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable

assets and liabilities of companies acquired by the Group. As at December 31, 2018, goodwill is at ₱2,399.76 million. This nets out an impairment of ₱144.86 million, pertinent to AoC.

- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2018, customer relationship is valued at ₱1,077.81 million.
- 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 December 31, 2018, developed software net book value is at ₱121.08 million. Amortization of developed software for the twelve-month period ended December 31, 2017 amounted to ₱34.59 million.
- Cryptocurrencies pertain to units of Bitcoin held by the Group as at December 31, 2018 valued at ₱5.48 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2018, leasehold rights net book value is at ₱8.79 million. Amortization of leasehold rights for the twelve-month period ended December 31, 2018 amounted to ₱2.48 million.

Pension Asset

The Group's recorded pension asset as of December 31, 2018 and December 31, 2017 was at ₱1.41 million and ₱0.31 million, respectively, an increase of 354%.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱14.19 million as at December 31, 2018, lower by 88% or ₱101.34 million vis-à-vis its December 31, 2017 level at ₱115.53 million. The significant decrease in deferred tax asset was brought about by the increase in unrecognized deferred tax asset as aforementioned.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱46.37 million as of December 31, 2018. This figure is 9% lower than the value posted as of December 31, 2017 at ₱50.74 million. These are primarily rental deposits amounting to ₱19.95 million.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱654.52 million as at December 31, 2018 was a 33% or ₱161.41 million increase from its December 31, 2017 figure of ₱493.11 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱179.20 million, payable to related parties at ₱104.03 million (₱102.42 million from Xurpas, as advances from stockholders), deferred output VAT at ₱42.67 million and accrued expenses at ₱42.66 million.

Loans Payable

The Group recorded ₱358.74 million in current loans in December 31, 2018 and ₱377.42 million in December 31, 2017. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at December 31, 2018 amounted to ₱2.19 million, a decrease of 78% from the December 31, 2017 figure of ₱10.08 million.

Contract Liabilities

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.

As at December 31, 2018, contract liabilities amounted to ₱44.50 million.

Other Current Liabilities

The Group's other current liabilities amounted to ₱63.75 million in December 31, 2018 compared to ₱77.17 million in 2017, a decrease of 17%.

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 is ₱0.02 million in December 31, 2018 and ₱0.61 million December 31, 2017.

Deferred Tax Liability

As of December 31, 2018, the deferred tax liability (net) was at ₱352.73 million, a decrease of 1% or ₱3.13 million from ₱355.86 million as of December 31, 2017.

Pension Liability

The accrued pension of the Group is at ₱23.52 million in December 31, 2018 compared to ₱31.30 million in December 31, 2017 or a decrease of 25%.

Equity

Total Equity

The Group's total equity as of December 31, 2018 was at ₱3,466.58 million, a 3% increase from its December 31, 2017 level at ₱3,355.50 million. The net decrease in total equity was a result of decrease in equity reserve from ₱1,250.72 million as of December 31, 2017 to ₱402.22 million as of December 31, 2018. Retained earnings decreased from ₱322.73 million as of December 31, 2017 to negative ₱556.37 million as at December 31, 2018 because of the net losses for 2018. This also included the reclassification for Available for Financial Assets as a result of adopting PFRS 9 which resulted into a net unrealized loss on financial assets at FVOCI of ₱44.22 million; which is recorded as a contra-equity account.

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 the Parent Company and Seer Technologies Inc. which are short term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

In PhP Millions	For the 12 months ended December 31	
	2018	2017
	Amount	Amount
Net cash provided by (used in) Operating Activities	(186.02)	248.52
Net cash provided by (used in) Investing Activities	(102.43)	(169.89)
Net cash provided by (used in) Financing Activities	236.19	(274.97)
Effect of foreign currency exchange changes in cash	14.40	(16.92)
Net increase (decrease) in cash	(37.86)	(213.26)
Cash at beginning of period	215.25	428.52
Cash at end of period	177.40	215.25

Cash Flows Provided by Operating Activities

For the first twelve months of 2018, operating loss of ₱385.95 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱104.91 million net cash used in operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱186.02 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for subsidiaries and associates for the twelve months of 2018 was ₱102.43 million compared to ₱169.89 million used in the same period of 2017. The net cash used in investing activities was mainly attributable to the proceeds of sale from cryptocurrencies and the balance of the earn-out payment to Art of Click.

Cash Flows Provided by (Used in) Financing Activities

The Group's consolidated net cash flow provided by financing activities for period ended December 31, 2018 was ₱236.19 million compared to net cash flow used in financing activities for the period ended December 31, 2017 which was ₱274.97 million.

Capital Expenditure

The Group's capital expenditures for the period ended December 31, 2018 and the year ended December 31, 2017 amounted to ₱18.35 million and ₱27.50 million, respectively.

Key Financial Data In PhP Millions	December 31, 2018 Additions	December 31, 2017 Additions
Office Equipment	1.19	3.08
IT Equipment	14.58	18.03
Furniture and Fixtures	0.06	0.95
Leasehold Improvements	2.52	4.33
Leased Asset	-	1.11
	18.35	27.50

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 year ended December 31	
	2018	2017
Liquidity Ratios		
Current Ratio	69%	54%
Quick Ratio	64%	51%
Asset-to-Equity Ratio	183%	231%
Profitability Ratios		
Net Income Margin	-62%	2%
Gross Margin	9%	31%
Operating Margin	-46%	12%
Return on Total Assets	-14%	1%
Return on Equity	-22%	1%
Debt Ratios		
Debt-to-Equity Ratio	0.55x	0.97x
Interest Coverage Ratio	-20.45x	2.81x

Current Ratios

Current Ratio and Quick Ratios in the twelve-month period at December 31, 2018 were 69% and 64%, respectively, an increase from their respective 54% and 51% figures during the full year of 2017. The increase in both ratios was primarily from the decrease in current liabilities; due to the reversal of the liability for written put option and the settlement of the payable to a former shareholder of a subsidiary, even as current assets also decreased over the period.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 231% in December 31, 2017 to 183% in December 31, 2018 resulted from the decrease in total assets vis-à-vis equity, which increased over the same period.

Profitability Ratios

Profitability margins decreased from December 31, 2017, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (9%), Net Income Margin (-62%), Operating Margin (-46%), Return on Total Assets (-14%) and Return on Equity (-22%) was a result of the year's net losses.

Debt Ratios

Debt to Equity ratio in December 31, 2018 was at 0.55x compared to 0.97x as at December 31, 2017. The decrease in the gearing ratio was attributed to the lower liability in December 31, 2018 compared to the previous year. Interest coverage ratio in December 31, 2017 was at -20.45x compared to 2.81x the previous year. The decrease in this ratio is because of the big drop in earnings before interest and tax expense and higher interest expense in 2018 compared to 2017.

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

Current Ratios

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

Asset-to-equity Ratio

$\frac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$
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Profitability Ratios

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

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines 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 known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are confined to its mobile consumer and other services segment.

Full Year 2017 compared with 2016

Financial Summary

Key Financial Data In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,336.54	64%	1,239.92	64%	96.60	8%
Enterprise services	667.60	32%	653.14	34%	14.46	2%
Other services	99.44	5%	54.07	3%	45.36	84%
<i>Total Revenues</i>	2,103.57	100%	1,947.14	100%	156.43	8%
Cost of Services	1,373.41	65%	1,101.90	57%	271.52	25%
Cost of Goods Sold	81.01	4%	41.82	2%	39.18	94%
Gross Profit	649.15	31%	803.43	41%	(154.28)	-19%
General and Administrative Expenses	572.62	27%	354.73	18%	217.89	61%
Equity in Net Loss of Associates	36.72	2%	33.90	2%	2.82	8%
Other charges (income) - net	(82.23)	-4%	35.69	2%	(117.92)	-330%
Income (Loss) Before Income Tax	122.04	6%	379.10	19%	(257.07)	-68%
Provision for (Benefit from) Income Tax	19.47	1%	114.27	6%	(94.80)	-83%
Net Income (Loss)	102.57	5%	264.84	14%	(162.26)	-61%
Other Comprehensive Income	21.15	1%	17.48	1%	3.67	21%
Total Comprehensive Income (Loss)	123.72	6%	282.32	14%	(158.60)	-56%

	December 31, 2017 Amount	December 31, 2016 Amount	Amount Change	% Increase (Decrease)
Total Assets	5,810.18	6,476.43	(666.25)	-10%
Total Liabilities	2,454.68	2,686.93	(232.25)	-9%
Total Equity	3,355.50	3,789.50	(434.00)	-11%

Total revenues increased by ₱156.43 million or 8%, from ₱1, 947.14 million in 2016 to ₱2,103.57 million in 2017. The net income of the Group for the twelve-month period ended December 31, 2017, decreased by 61% (from ₱264.84 million (as restated) in the year ended 2016 to ₱102.57 million in 2017). Total comprehensive income over the same period decreased by 56% from ₱282.32 million as at December 31, 2016 to ₱123.72 million as at December 31, 2017. Group revenues were still mainly driven by mobile consumer services, comprising 64% of the total revenues.

The blended cost of services (aggregating the subsidiaries' costs) increased by 25% from ₱1,101.90 million for the year ended 2016 to ₱1,373.41 million for the comparable period in 2017. Cost of goods sold attributable to other services was ₱81.01 million for the year ended 2017 compared to ₱41.82 million in 2016, an increase of 94% or ₱39.19 million. Gross profit margins on total revenues, for the period ended December 31, 2017 was at 31%, a decrease from the same period last year at 41%. Gross profit decreased by 19% from ₱803.43 million for the full year of 2016 to ₱649.15 million for the same period in 2017.

General and administrative expenses increased by 61%, from ₱354.73 million in 2016 to ₱572.62 million for the same period in 2017. Overall, the increase was mainly due to the costs related to the Group's expansion: (i) absorption of operating expenses of acquired subsidiaries made in 2015 and 2016, (ii) increase in salaries and wages due to organizational build-up of the parent company and acquired subsidiaries, and (iii) investment and acquisition-related costs and legal fees, the latter being non-recurring, and (iv) one-time impairment losses. Included in the general and administrative expenses were increase in non-cash expenses such as depreciation and amortization related to capitalization costs, as well as non-cash interest expenses related to the recognition of liability for a written put option. The Company also

shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱36.72 million for the period ended December 31, 2017. Provision for taxes during 2017 was ₱19.47 million or 83% lower than the same period in 2016 at ₱114.27 million. Overall, the net income for the Group decreased from ₱264.84 million (as restated) in 2016 to ₱102.57 million over the same period in 2017; a decrease of 61%.

Consolidated total assets as of December 31, 2017 amounted to ₱5,810.18 million, a decrease of 10% from ₱6,476.43 million as of December 31, 2016. The net decrease of ₱666.25 million in total assets was mainly brought by the ₱335.92 million decrease in financial assets at FVPL. Consolidated total liabilities decreased by 9% from ₱2,686.93 million as of December 31, 2016 to ₱2,454.68 million in December 31, 2017, due mainly to the decrease in contingent liability. Consolidated total equity decreased by 11% over the same period, from ₱3,789.50 million to ₱3,355.50 million. This was a result of the increase in equity reserve.

Segment Financial Performance

As of December 31, 2017 In ₱P Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	1,599.60	721.36	5.67	(317.08)	2,009.55
Revenue from sale of goods	-	-	94.02	-	94.02
Total Service Revenues	1,599.60	721.36	99.69	(317.08)	2,103.57
Operating expenses	1,424.34	721.94	169.43	(288.68)	2,027.03
Equity in net loss of associates	-	-	-	36.72	36.72
Other charges (income) - net	(207.18)	(5.09)	1.31	128.73	(82.23)
Total Expenses	1,217.17	716.85	170.74	(123.23)	1,981.52
Operating Loss	382.43	4.51	(71.05)	(193.85)	122.05
Benefit from (provision for) income tax	64.63	27.49	(7.22)	(65.43)	19.47
Net Loss	317.80	(22.98)	(63.82)	(128.42)	102.58

As of December 31, 2017, mobile consumer services' revenues, operating profit and net income prior to eliminations were ₱1,599.60 million, ₱382.43 million and ₱317.80 million, respectively. These translated to 24% operating profit margin and 20% net income margin. Enterprise services had an operating profit of ₱4.51 million and net loss of ₱22.98 million (net loss margin of 3%) from revenues of ₱721.36 million. For 2017, although Yondu's enterprise business was profitable, this was not enough to offset the losses of the subsidiaries under this segment. The other services segment has yet to yield a positive contribution to the Group.

Profitability

For the twelve-month period ended December 31, 2017 compared with the twelve-month period ended December 31, 2016

Revenues

The consolidated service revenues of the Group for the period ended December 31, 2017 amounted to ₱2,103.57 million, an increase of 8% from ₱1,947.14 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 Inc. • 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"> • Xeleb Technologies Inc. • 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

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,336.54	64%	1,239.92	64%	96.61	8%
Enterprise services	667.60	32%	653.14	34%	14.45	2%
Other services	99.44	5%	54.07	3%	45.36	84%
<i>Total Revenues</i>	2,103.57	100%	1,947.14	100%	156.43	8%

Revenues from the mobile consumer services segment for the twelve-month period ended December 31, 2017 amounted to ₱1,336.54 million, an increase of 8% from the previous year’s same period level of ₱1,239.92 million. The increase was attributed to the growth from the mobile games business and the accretive value of the acquisition of Art of Click in 2017. This segment accounts for 64% of the total revenues. On the other hand, revenues from enterprise services (which accounts for 32% of total revenues) increased by 2% in December 31, 2017, to ₱667.60 million from ₱653.14 million in December 31, 2016. Other services booked revenues of ₱99.44 million in the first twelve months of 2017, higher by 84% from the previous level at ₱54.07 million over the same period last year. The increase in the sales of Storm was attributed to organic growth in its client base and active platform users.

Expenses

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	1,373.41	68%	1,101.90	74%	271.51	25%
Cost of Goods Sold	81.01	4%	41.82	3%	39.19	94%
General and Administrative Expenses	572.62	28%	354.73	24%	217.89	61%
<i>Total Expenses</i>	<i>2,027.04</i>	<i>100%</i>	<i>1,498.45</i>	<i>100%</i>	<i>528.58</i>	<i>35%</i>

As of the full year of 2016, Xurpas had as subsidiaries: Xeleb Technologies (formerly Fluxion), Storm Flex, Xeleb, Seer, and Yondu. In contrast, the full year of 2017 now also includes Art of Click. The Group's consolidated expenses during the period ended December 31, 2017 amounted to ₱2,027.04 million, a 35% increase from the same period of the previous year at ₱1,498.44 million. For the full year of 2017, cost of services accounted for the bulk of expenses, totaling ₱1,373.41 million or 68% of the Group's consolidated expenses. For the same period in 2016, cost of services amounted to ₱1,101.90 million or 74% of overall expenses of ₱1,498.44 million.

Cost of Services

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	639.94	47%	486.90	44%	153.04	31%
Outsourced services	463.38	34%	368.53	33%	94.85	26%
Royalty fees	81.31	6%	48.44	4%	32.87	68%
Others	188.78	14%	198.03	18%	(9.25)	-5%
<i>Total Expenses</i>	<i>1,373.41</i>	<i>100%</i>	<i>1,101.91</i>	<i>100%</i>	<i>271.51</i>	<i>25%</i>

Cost of services totaling ₱1,373.41 million as of December 31, 2017, was mainly driven by expenses relating to (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Royalty fees, which accounted for 47%, 34%, and 6%, respectively. These costs were directly borne from rendering mobile consumer services, enterprise services, and other services to the Group's clients for the twelve months of 2017. Of the total cost of services for the period, more than half is attributed to Art of Click and Yondu.

Cost of Goods Sold

For the period ended December 31, 2017, cost of goods sold took up 4% of the Group's consolidated expenses, amounting to ₱81.01 million. This figure was an increase of 94% from its level at ₱41.82 million in December 31, 2016. The increase in cost of goods sold was directly attributable to the increase in revenues of Storm Technologies. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold.

General and Administrative Expenses

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	163.02	28%	126.49	36%	36.53	29%
Provision for impairment losses	106.54	19%	0.39	0%	106.15	27218%
Professional fees	48.03	8%	43.31	12%	4.72	11%
Taxes and licenses	43.66	8%	18.65	5%	25.01	134%
Others	211.37	37%	165.89	47%	45.48	27%
<i>Total Expenses</i>	572.62	100%	354.72	100%	217.90	61%

General and administrative expenses relating to the Group's operations, for twelve months of 2017 amounted to ₱572.62 million, higher by 61% compared to previous year's same period level of ₱354.73 million. The increase in the GAEX was primarily brought about by the consolidation of operational expenses from the latest acquired subsidiary, Art of Click, which contributed 26% of the total. Salaries, wages, and employee benefits was ₱163.02 million or 28% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱126.49 million for the same period in 2016. The next biggest cost component in December 31, 2017 was Provision for impairment losses amounting to ₱106.54 million or 19% of total GAEX. This refers to the provision made for one of Art of Click's clients, net of amount that it actually was able to collect from its other clients. Likewise, in 2017, due to the change in the payment structure to the main seller of the shares of Art of Click to Xurpas, the Parent Company incurred ₱48.07 million for one-off expenses pertaining to donors/capital gains tax, professional fees, bank charges and foreign exchange loss.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the period ended December 31, 2017, amounted to ₱36.72 million. These companies are still in their testing phase or are in the process of ramping up or commercializing their operations. Despite the aggregate net loss of associates for 2017, the Group is now seeing profits from the associates companies - PT Sembilan Digital Investama (SDI), and MatchMe. Altitude Games and MicroBenefits are the associates that posted a net loss for 2017. Altitude Games business is expected to pick up, as it closed a partnership with a big US mobile games developer, to co-develop and introduce games to the US market. For MicroBenefits, it had as its main focus in the first half, product and user experience upgrade. This paved the way to landing more clients in 2017. MicroBenefits added eight additional brands, representing more than 100 factories in at least 20 factory family groups. It has expanded out of China to Vietnam, India, Bangladesh, and Guatemala.

Other Income – net

For the year 2017, the Group recognized other income amounting to ₱82.23 million. This account mainly pertains to net gain from income and charges subsequent to the business combination with Art of Click amounting to ₱90.91 million which is composed of the ₱364.01 million gain from waiver of deferred purchase consideration, ₱26.59 million foreign exchange loss, ₱30.92 million accretion of unamortized expense, ₱61.63 million interest expense on payable to former shareholders of AOC and ₱153.96 million loss from additional payments to former shareholder of AOC.

Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA)

In PhP Millions	For the 12 months ended December 31			
	2017	2016	Amount Change	% Increase
Income before tax	122.04	379.10	(257.06)	-68%
Depreciation and amortization	66.98	48.63	18.35	38%
Interest expense	67.54	34.98	32.56	93%
<i>EBITDA</i>	256.56	462.71	(206.15)	-45%

The Group's EBITDA decreased by 45% in December 31, 2017 to ₱256.56 million from ₱462.71 million the same period of the previous year. Depreciation and amortization of property and office equipment and intangible assets amounted to ₱66.98 million as at December 31, 2017 from ₱48.63 million as at December 31, 2016. Interest expense increased by 93% from ₱34.98 million as of December 31, 2016 to ₱67.54 million for the same period in 2017.

Income before Income Tax

The Group's net income before taxes for period ended December 31, 2017 was 6% of total revenues or a figure of ₱122.04 million. The net income before taxes for the Group declined by 68% or ₱257.06 million from the same period ended December 31, 2016, which posted a figure of ₱379.10 million.

Provision for Income Tax

Provision for income tax during the twelve-month period ended December 31, 2017 amounted to ₱19.47 million, compared to the same period in 2016, where provision for income tax was ₱114.27 million; an 83% decrease.

Net Income

The Group posted a consolidated net income of ₱102.57 million for the period ended December 31, 2017, a decrease of 61% from the previous year's same period at ₱264.84 million. Despite the Group's continuing organizational build-up, acquisition, investment-related expenses during this period versus that on December 31, 2016, the revenues generated a net income margin of 5% for the twelve months of 2017. Without the provision for impairment loss, the net income would have been ₱203.58 million.

Total Comprehensive Income

As of December 31, 2017, the Group's total comprehensive income amounted to ₱123.72 million, a decrease of 56% compared to ₱282.32 million as at December 31, 2016.

Financial Position

As of December 31, 2017 compared to December 31, 2016

Assets

Cash

The Group's consolidated cash amounted to ₱215.25 million for the twelve-month period ended December 31, 2017, a net decrease of 50% or ₱213.26 million from consolidated cash of ₱428.52 million as at December 31, 2016.

Financial Assets at Fair Value through Profit or Loss

The total Net Asset Value (NAV) and fair value of the Fund as of December 31, 2017 was nil, compared to ₱335.92 million in December 30, 2016. Part of the funds raised by the Parent Company after the April 29, 2016 overnight top-up placement was placed in the SB Money Market Fund while waiting for the appropriate use of the proceeds. The SB Money Market Fund was invested in a diversified portfolio of primarily short-term fixed income instruments. As at December 31, 2017, the funds were used for partial payment due to Emmanuel Allix for the purchase of Art of Click.

Accounts Receivable

The Group's consolidated accounts receivable amounted to ₱845.67 million and ₱956.90 million as at December 31, 2017 and December 31, 2016, respectively, representing a decrease of ₱111.23 million. In December 31, 2017, trade receivables were valued at ₱933.36 million, whereby Yondu and Art of Click account for ₱518.25 million (56% of the total) and ₱273.87 million (29% of the total), respectively.

Available for Sale Financial Assets

As of December 31, 2017, the Group's available for sale financial assets amounted to ₱159.05 million, which increased by 4% or ₱6.08 million from its previous level on December 31, 2016. These are investments in Pico Candy Pte. Ltd. (₱3.60 million), MatchMe Pte. Ltd. (₱52.50 million), Altitude Games Pte. Ltd. (₱28.86 million), Einsights Pte. Ltd. (₱23.48 million), Social Light Inc. (₱6.00 million), Club Punta Fuego (₱0.38 million), and Quick.Ly Inc. (₱44.24 million).

Other Current Assets

The Group's consolidated other current assets totaled ₱57.94 million, an increase of ₱5.31 million or 10% from its previous level on December 31, 2016 at ₱52.63 million. Prepaid expenses and creditable withholding taxes comprised majority of other current assets.

Investment in Associates

As of December 31, 2017, the Group's consolidated investment in associates amounted to ₱515.66 million, a 6% decrease from its figure of ₱549.86 million during December 31, 2016. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd.

(₱26.33 million), Altitude Games Inc. (₱0.09 million), MatchMe (₱51.67 million), SDI (₱10.51 million), and Micro Benefits Limited (₱427.07 million).

Property and Equipment

The Group's consolidated property and equipment was ₱76.15 million in December 31, 2017 vis-à-vis ₱80.53 million in December 31, 2016, or a decrease of 5%. This was the net result of adding ₱27.50 million worth of said assets and the depreciation expense amounting to ₱31.59 million for the twelve-month period ended December 31, 2017. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures.

Intangible Assets

Intangible assets of ₱3,773.88 million as at December 31, 2017 were recognized in relation to the Group's acquisitions and investments. Movements in this account pertains to additions and amortization amounting to ₱10.57 million and ₱35.38 million, respectively, resulting to a net decrease amounting to ₱24.81 million or 1% of the December 31, 2016 figure at ₱3,798.69 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As at December 31, 2017, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2017, customer relationship is valued at ₱1,077.81 million.
- 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 December 31, 2017, developed software net book value is at ₱140.18 million. Amortization of developed software for the twelve-month period ended December 31, 2017 amounted to ₱32.90 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2017, leasehold rights net book value is at ₱11.27 million. Amortization of leasehold rights for the twelve-month period ended December 31, 2017 amounted to ₱2.48 million.

Pension Asset

The Group's recorded pension asset as of December 31, 2017 and December 31, 2016 was at ₱0.31 million and ₱2.39 million, respectively, a decrease of ₱2.08 million or 87%.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱115.53 million as at December 31, 2017, higher by 86% or ₱53.25 million vis-à-vis its December 31, 2016 level at ₱62.28 million.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱50.74 million as of December 31, 2017. This figure is 9% lower than the value posted as of December 31, 2016 at ₱55.76 million. These are primarily rental and other deposits amounting to ₱24.85 million and ₱25.89 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱493.11 million as at December 31, 2017 was a 19% or ₱79.38 million increase from its December 31, 2016 figure of ₱413.73 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱218.58 million (₱104.55 million from Art of Click and ₱81.43 million from Yondu), payable to related parties at ₱102.53 million (₱97.15 million from Xurpas, as advances from stockholders), deferred output VAT at ₱62.55 million (₱56.90 million from Yondu), accrued expenses at ₱60.60 million (₱56.99 million from Yondu), taxes payable at ₱29.00 million, and other payables at ₱19.84 million.

Loans Payable

The Group recorded ₱377.42 million in current loans in December 31, 2017 and ₱3.00 million in December 31, 2016. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at December 31, 2017 amounted to ₱10.08 million, a decrease of 84% from the December 31, 2016 figure of ₱64.44 million.

Liability for Written Put Option

Based on PAS 32, *Financial Instruments: Presentation*, "...a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to ₱864.71 million, unchanged as of December 31, 2017 and December 31, 2016.

Payable to Former Shareholders of a Subsidiary

The Group recorded ₱244.43 million in Payable to former shareholders of a subsidiary as at December 31, 2017 and ₱314.13 million as at December 31, 2016, a decrease of ₱69.70 million or 22%.

Other Current Liabilities

The Group's other current liabilities amounted to ₱77.17 million in December 31, 2017 compared to ₱127.72 million in 2016, a decrease of 40%.

Loans Payable – non-current portion

The Group recorded nil in non-current loans in December 31, 2017 and ₱14.00 million in December 31, 2016.

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 is ₱0.61 million in December 31, 2017 and ₱1.16 million December 31, 2016.

Payable to Former Shareholders of a Subsidiary – net of current portion

The Group recorded nil and ₱491.29 million in payable to former shareholders of a subsidiary (net of current portion) as of December 31, 2017 and December 31, 2016, respectively.

Deferred Tax Liability

As of December 31, 2017, the deferred tax liability (net) was at ₱355.86 million, a decrease of 2% or ₱7.99 million from ₱363.85 million as of December 31, 2016. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

The accrued pension of the Group is at ₱31.30 million in December 31, 2017 compared to ₱28.91 million in December 31, 2016 or an increase of 8%.

Equity

Total Equity

The Group's total equity as of December 31, 2017 was at ₱3,355.50 million, an 11% decrease from its December 31, 2016 level at ₱3,789.50 million. The net decrease in total equity was a result of increase in equity reserve from ₱892.22 million as of December 31, 2016 to ₱1,250.72 million as of December 31, 2017. Retained earnings decreased by ₱57.08 million or 15% from ₱379.81 million as at December 31, 2016 to ₱322.73 million in December 31, 2017.

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 the Parent Company and Seer Technologies Inc. which are short term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

In PhP Millions	For the 12 months ended December 31	
	2017	2016
	Amount	Amount
Net cash provided by Operating Activities	248.52	17.89
Net cash used in Investing Activities	(169.89)	(887.03)
Net cash provided by (used in) Financing Activities	(274.97)	1,009.41
Effect of foreign currency exchange changes in cash	(16.92)	(17.64)
Net increase (decrease) in cash	(213.26)	122.63
Cash at beginning of period	428.52	305.89
Cash at end of period	215.25	428.52

Cash Flows Provided by Operating Activities

For the first twelve months of 2017, operating income of ₱137.42 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱387.72 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash provided by operating activities of ₱248.52 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for subsidiaries and associates for the twelve months of 2017 was ₱169.89 million compared to ₱887.03 million used in the same period of 2016. The net cash used in investing activities was mainly attributable to the earn-out payment to Art of Click.

Cash Flows Provided by (Used in) Financing Activities

The Group's consolidated net cash flow used in financing activities for the period ended December 31, 2017 was ₱274.97 million; compared to ₱1,009.41 million provided as of December 31, 2016. The cash flow used in financing activities were mainly from payment of payable to a former shareholder of a subsidiary.

Capital Expenditure

The Group's capital expenditures for the period ended December 31, 2017 and the year ended December 31, 2016 amounted to ₱27.50 million and ₱50.93 million, respectively. Note that in 2016, additions through business combination were ₱0.63 million.

Key Financial Data In PhP Millions	December 31, 2017	December 31, 2016	
	Additions (Regular)	(Business Combination)	(Regular)
Office Equipment	3.08	0.06	2.34
IT Equipment	18.03	0.51	15.06
Furniture and Fixtures	0.95	0.07	7.12
Leasehold Improvements	4.33	-	23.98
Leased Asset	1.11	-	1.81
Transportation Equipment	-	-	-
Total	27.50	0.63	50.30

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at ₱244.43 million (current portion) as at December 31, 2017 and ₱314.13 million (current portion) and ₱491.29 million (non-current portion) for December 31, 2016. 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.

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 years ended December 31	
	2017	2016
Liquidity Ratios		
Current Ratio	54%	105%
Quick Ratio	51%	102%
Asset-to-Equity Ratio	231%	219%
Profitability Ratios		
Net Income Margin	2%	11%
Gross Margin	31%	41%
Operating Margin	12%	24%
Return on Total Assets	1%	7%
Return on Equity	1%	14%
Debt Ratios		
Debt-to-Equity Ratio	0.97x	0.91x
Interest Coverage Ratio	2.81x	11.84x

Current Ratios

Current Ratio and Quick Ratios in the twelve-month period at December 31, 2017 were 54% and 51%, respectively, a decrease from their respective 105% and 102% figures during the full year of 2016. The decrease in both ratios was primarily from the significant increase in current liabilities and decrease of current assets of the Group for that period.

Asset-to-Equity Ratio

The increase in the asset-to-equity ratio from 219% in December 31, 2016 to 231% in December 31, 2017 resulted from the decrease in equity, particularly equity reserve, and decrease in total assets, particularly from financial assets as FVPL.

Profitability Ratios

Profitability margins decreased from December 31, 2016, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (31%), Net Income Margin (2%), Operating Margin (12%), Return on Total Assets (1%) and Return on Equity (1%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, expansion of operations offshore, salaries and wages paid to the Group's new employees for its organizational build-up program; and payment of professional and legal fees incurred from investments and acquisitions.

Debt Ratios

Debt to Equity in December 31, 2017 was at 0.97x compared to 0.91x as at December 31, 2016. The increase in the gearing ratio was attributed to the lower total equity value in December 31, 2017 compare to the previous year. Interest coverage ratio in December 31, 2017 was at 2.81x compared to 11.84x the previous year. The decrease in this ratio is because of the lower recorded earnings before interest and tax expense and higher interest expense in 2017 compared to 2016.

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

Current Ratios

- | | |
|------------------|--|
| 1. Current ratio | $\frac{\text{Current assets}}{\text{Current liabilities}}$ |
| 2. Quick ratio | $\frac{\text{Current assets} - \text{Other current assets}}{\text{Current liabilities}}$ |

Asset-to-equity Ratio

$$\frac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$$

Profitability Ratios

- | | |
|---------------------|---|
| 1. Net income ratio | $\frac{\text{Net income attributable to Parent Company}}{\text{Total equity attributable to Parent Company}}$ |
|---------------------|---|

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

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines 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 known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are confined to its mobile consumer and other services segment.

Full Year 2016 compared with 2015

Financial Summary

PhP Millions	Years Ended December 31			Percentage Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Revenues	1,947.14	898.37	378.32	117%	137%
Gross Profit	803.43	513.87	264.45	56%	94%
Income before Income Tax	379.10	331.10	239.14	14%	38%
Net Income	264.84	229.62	190.72	15%	20%

Revenues					
Mobile Consumer Services	1,239.92	576.05	309.37	115%	86%
Enterprise Services	653.14	243.46	68.95	168%	253%
Other Services	54.07	78.87	-	-31%	n.a.

Service revenues of the Group increased from ₱378.32 million in 2014 to ₱898.37 million in 2015, or a 137% increase. The revenue growth was sustained in 2016 at 117% (from ₱898.37 million in 2015 to ₱1,947.14 million in 2016). Mobile consumer services grew 86% from ₱309.37 million in 2014 to ₱576.05 million in 2015; and a further 115% increase in 2016, when revenues in this segment reached ₱1,239.92 million. On the other hand, enterprise services grew 253% from ₱68.95 million in 2014 to ₱243.46 million in 2015; and a further 168% increase in 2016, when revenues in this segment reached ₱653.14 million. The profitability of the Group did not grow at the same rate as the revenues because of the planned expansion expenses in line with revenue growth; as shown in the 2014 to 2016 lower rates of increase of gross profit, Income before Income Tax, and Net Income.

Key Financial Data In PhP Millions	For the 12 months ended December 31					
	2016 (As restated)		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,239.92	64%	576.05	64%	663.87	115%
Enterprise services	653.14	34%	243.46	27%	409.69	168%
Other services	54.07	3%	78.86	9%	(24.79)	-31%
Total Revenues	1,947.14	100%	898.37	100%	1,048.77	117%
Cost of Services	1,101.90	57%	314.69	35%	787.21	250%
Cost of Goods Sold	41.82	2%	69.81	8%	(27.99)	-40%
Gross Profit	803.42	41%	513.87	57%	289.55	56%
General and Administrative Expenses	354.73	18%	190.52	21%	164.21	86%
Equity in Net Loss of Associate	33.90	2%	9.48	1%	24.42	258%
Other charges (income) - net	35.69	2%	(17.23)	-2%	52.92	-307%
Income Before Income Tax	379.10	19%	331.10	37%	48.00	14%
Provision for Income Tax	114.27	6%	101.48	11%	12.79	13%
Net Income	264.84	14%	229.62	26%	35.22	15%
Other Comprehensive Income (Loss)	17.48	1%	10.15	1%	7.33	72%
Total Comprehensive Income	282.32	14%	239.76	27%	42.56	18%
EBITDA	462.71	24%	351.05	39%	111.67	32%
	Dec. 31, 2016		Dec. 31, 2015		Amount	%
	Amount		Amount		Change	Increase
Total Assets	6,476.43		3,394.37		3,082.06	91%
Total Liabilities	2,686.93		1,830.62		856.31	47%
Total Equity	3,789.50		1,563.75		2,225.75	142%

The net income of the Group for the twelve-month period ended December 31, 2016, increased by 15% (from ₱229.62 million in year ended 2015 to ₱264.84 million in 2016). EBITDA increased by 32% to ₱462.71 million in 2016 from ₱351.05 million the previous year. The Group's revenues were mainly driven by mobile consumer services, comprising 64% of 2016 revenues.

In 2015, the Group acquired and invested in a number of companies at different periods of the year. Its largest acquisition in 2015 was Yondu at ₱900.00 million, which was completed on September 15, 2015. In October 6, 2016, Xurpas disclosed that it acquired 100% of AOC at an aggregate consideration of approximately US\$45.00 million. The ramp-up of expenses during the full year of 2016 was due to the Group's various investments, acquisitions, and on-going product and platform development. While the Group's business increased as of December 31, 2016, the full accretive value of its investments in 2015 and 2016 have not yet materialized in that year, thus its net income did not grow at the same pace as service revenue.

Total revenues increased by ₱1,048.76 million or 117% for the comparable period, from ₱898.37 million in 2015 to ₱1,947.14 million in 2016. Partial effects of new revenue segments from investments and acquisitions in 2015 were realized in 2016. These new revenue segments

refer to enterprise solutions and services from Yondu and Seer, and to the HR technologies services of Storm.

The Group's total cost of services increased by 250% from ₱314.69 million for year ended 2015 to ₱1,101.90 million for the comparable period in 2016. Cost of goods sold attributable to other services was ₱41.82 million for year ended December 31, 2016 compared to ₱69.81 million in 2015, a decrease of 40% or ₱27.99 million. Gross profit margins on total revenues, for the twelve-month period ended December 31, 2016 was at 41%, a decrease from the same period last year at 57%. However, in absolute amount, gross profit increased by 56% from ₱513.87 million for the year ended 2015 to ₱803.42 million for the same period in the year ended 2016.

General and administrative expenses increased by 86%, from ₱190.52 million for the year ended 2015 to ₱354.73 million for the same period in 2016. Overall, the increase was mainly due to the costs related to the Group's expansion: (i) absorption of operating expenses of acquired subsidiaries made in 2015 and 2016, (ii) increase in salaries and wages due to organizational build-up of the parent company and acquired subsidiaries, and (iii) investment and acquisition-related costs and legal fees, the latter being non-recurring. Included in the general and administrative expenses were increase in non-cash expenses such as depreciation and amortization related to capitalization costs, as well as non-cash interest expenses related to the recognition of liability for a written put option. The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱33.90 million for the period ended December 31, 2016. Provision for taxes during the year ended 2016 was ₱114.27 million or 13% higher than the same period in 2015 at ₱101.48 million; due which is attributed to the higher income before tax.

Overall, the net income for the Group increased from ₱229.62 million for the year ended 2015 to ₱264.84 million over the same period in 2016 reflecting an increase of 15%. Core net income which excludes the non-recurring expenses amounting to ₱73.56 million, was at ₱327.69 million or an increase of 43% over the previous period.

Consolidated total assets as of December 31, 2016 amounted to ₱6,476.43 million, an increase of 91% from ₱3,394.37 million as of December 31, 2015 which is attributed to the overnight top-up placement of the Parent Company's common shares in April 26, 2016. The net increase of ₱3,082.06 million in total assets was mainly brought by the ₱1,910.41 million increase in intangible assets, ₱447.05 million increase in investment in associates, ₱255.60 million increase in financial assets at FVPL and ₱222.58 million in Accounts and other receivables. Consolidated total liabilities increased by 47% from ₱1,830.62 million as of December 31, 2015 to ₱2,686.93 million in December 31, 2016, due mainly to the recognition of written put option contingent liability in 2016. Consolidated total equity increased by 142% over the same period, from ₱1,563.75 million to ₱3,789.50 million, which was mainly a result of the additional paid-in capital from the overnight top-up placement.

Segment Financial Performance

As of December 31, 2016 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	1,324.58	660.59	3.39	(92.11)	1,896.46
Revenue from sale of goods	–	–	50.68	–	50.68
Total Service Revenues	1,324.58	660.59	54.07	(92.11)	1,947.14
Operating expenses	909.88	564.01	102.50	(77.94)	1,498.44
Equity in net loss of associates	–	–	–	33.90	33.90
Other charges (income) - net	19.20	(6.22)	(0.05)	22.75	35.69
Total Expenses	929.08	557.79	102.45	(21.29)	1,568.03
Operating profit	395.50	102.80	(48.38)	(70.82)	379.10
Provision for income tax	107.02	26.86	(11.89)	(7.72)	114.27
Net Income	288.48	75.94	(36.49)	(63.09)	264.84

As of December 31, 2016 prior to intersegment adjustments, mobile consumer services' revenues, operating profit and net income prior to eliminations were ₱1,324.58 million, ₱395.50 million and ₱288.48 million, respectively. These translated to 30% operating profit margin and 22% net income margin. Enterprise services had operating profit of ₱102.80 million (operating profit margin of 16%) and net income of ₱75.94 million (net income margin of 11%) from revenues of ₱660.59 million. The other services segment has yet to yield a positive contribution to the Group.

Profitability

Revenues

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 • Yondu • AOC
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"> • Xeleb Technologies • Seer • Yondu
Other services	Revenues derived from services related to the proprietary platform	<ul style="list-style-type: none"> • Storm

	called “Flex Benefits System” and “Storm Kudos” which allows employees to convert their employee benefits to other benefits which includes sale of goods	
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In PhP Millions	For the 12 months ended December 31					
	2016 (As restated)		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,239.92	64%	576.05	64%	663.87	115%
Enterprise services	653.14	34%	243.46	27%	409.69	168%
Other services	54.07	3%	78.86	9%	(24.79)	-31%
<i>Total Revenues</i>	1,947.14	100%	898.37	100%	1,048.77	117%

Revenues from the mobile consumer services segment for the year ended December 31, 2016 amounted to ₱1,239.92 million, an increase of 115% from the previous year’s same period level of ₱576.05 million. This segment accounts for 64% of the total revenues. On the other hand, revenues from enterprise services (which accounts for 34% of total revenues) increased by 168% in December 31, 2016, to ₱653.14 million from ₱243.46 million in December 31, 2015. Other services booked revenues of ₱54.07 million in December 31, 2016, lower by 31% from the previous level at ₱78.87 million over the same period last year. The decrease in revenues from Storm was due to the longer-than-expected sales cycle, which has resulted in delayed implementation and revenue generation.

Expenses

In PhP Millions	For the 12 months ended December 31					
	2016 (As restated)		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	1,101.90	74%	314.69	55%	787.21	250%
Cost of Goods Sold	41.82	3%	69.81	12%	(27.99)	-40%
General and Administrative Expenses	354.73	24%	190.52	33%	164.21	86%
<i>Total Expenses</i>	1,498.45	100%	575.02	100%	923.43	161%

As of the full year of 2015, Xurpas had the following subsidiaries: Fluxion, Inc. (now registered with SEC as Xeleb Technologies Inc.), Storm (formerly Storm Flex Systems, Inc.), Xeleb, Seer and Yondu. In contrast, the full year of 2016 now also includes AOC. The Group’s consolidated expenses during the period ended December 31, 2016 amounted to ₱1,498.45 million, a 161% increase from the same period of the previous year at ₱575.02 million. For the full year of 2016, cost of services accounted for the bulk of expenses, totaling ₱1,101.90 million or 74% of the Group’s consolidated expenses. For the same period in 2015, cost of services amounted to ₱314.69 million or 55% of overall expenses of ₱575.02 million.

Cost of Services

In PhP Millions	For the 12 months ended December 31					
	2016 (As restated)		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Cost of Services						
Salaries, wages and employee benefits	486.90	44%	164.99	52%	321.91	195%
Outsourced services	368.53	33%	36.54	12%	332.00	909%
Segment fee and network costs	97.07	9%	55.10	18%	41.97	76%
Others	149.40	14%	58.07	18%	91.33	157%
<i>Total Cost of Services</i>	1,101.90	100%	314.69	100%	787.21	250%

Cost of services totaling ₱1,101.90 million for the full year of 2016, was mainly driven by expenses relating to (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Segment fee and network costs, which accounted for 44%, 33%, and 9%, respectively. These costs were directly borne from rendering mobile consumer services, enterprise services, and other services to the Group's clients for the full year of 2016. Of the total cost of services for the period, 77% is attributable to new subsidiaries. Of the outsourced services in 2016, 84% was attributable to AOC. In comparison, as at the full year of 2015 cost of services (₱314.69 million) was broken down into 52% salaries, wages, and employee benefits, 12% outsourced services, and 18% segment fee and network costs.

Cost of Goods Sold

For the period ended December 31, 2016, cost of goods sold comprise 3% of the Group's consolidated expenses, amounting to ₱41.82 million. This figure was a decrease of 40% from its level at ₱69.81 million in December 31, 2015. The decrease in cost of goods sold was directly attributable to the decrease in revenues of Storm. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold.

General and Administrative Expenses

In PhP Millions	For the 12 months ended December 31					
	2016 (As restated)		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	126.49	36%	66.93	35%	59.56	89%
Professional fees	43.31	12%	19.25	10%	24.06	125%
Repairs and maintenance	6.93	2%	9.20	5%	(2.27)	-25%
Rent	30.63	9%	10.74	6%	19.89	185%
Others	147.37	42%	84.39	44%	62.97	75%
<i>Total general and administrative expense</i>	354.73	100%	190.52	100%	164.21	86%

General and administrative expenses relating to the Group's operations, for full year ended December 31, 2016 amounted to ₱354.73 million, higher by 86% compared to previous year's same period level of ₱190.52 million. Salaries, wages, and employee benefits was ₱126.49 million or 36% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱66.93 million for the same period in 2015. The next biggest cost component in December 31, 2016 was professional fees amounting to ₱43.31 million or 12% of total GAEX. The increase in the GAEX was primarily brought about by the consolidation of operational expenses from newly acquired subsidiaries, which contributed 52% of the total.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the full year ended December 31, 2016, amounted to ₱33.90 million. These companies are still in their testing phase or are in the process of ramping up or commercializing their operations.

Other charges - net

For the year 2016, the Group recognized other charges amounting to ₱35.69 million. This account mainly pertains to charges incurred subsequent to business combination with AOC amounting to ₱44.74 million which is comprised of foreign exchange loss of ₱22.78 and interest expense on payable to former shareholder of AOC amounting to ₱21.96 million

Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA)

In PhP Millions	For the 12 months ended December 31			
	2016	2015	Amount Change	% Increase
Income before tax	379.10	331.10	48.00	14%
Depreciation and amortization	48.63	14.33	34.30	239%
Interest expense	34.98	5.61	29.37	524%
<i>EBITDA</i>	462.71	351.04	111.68	32%

The Group's EBITDA increased by 32% in December 31, 2016 to ₱462.71 million from ₱351.04 million the same period of the previous year. Depreciation and amortization of property and office equipment and intangible assets amounted to ₱48.63 million as at December 31, 2016 from ₱14.33 million as at December 31, 2015. Of the net increase of ₱34.30 million, ₱32.29 million was from the depreciation of IT equipment and amortization of developed software. Interest expense increased by 523% from ₱5.61 million for the full year of 2015 to ₱34.98 million for the full year of 2016. Of this amount, ₱33.48 million was non-cash interest expense from the liability for a written put option and contingent liability.

Income before Income Tax

The Group's net income before taxes for year ended December 31, 2016 was 19% of total revenues or a figure of ₱379.10 million. The net income before taxes for the Group grew 14% from the same period ended December 31, 2015, which posted a figure of ₱331.10 million.

Provision for Income Tax

Provision for income tax during the year ended December 31, 2016 amounted to ₱114.27 million, compared to the same period in 2015, where provision for income tax was ₱101.48 million; a 13% increase.

Net Income

The Group posted a consolidated net income of ₱264.84 million for the full year of 2016, an increase of 15% from the previous year's same period at ₱229.62 million. Despite the Group's continuing organizational build-up, acquisition, investment-related expenses during this period versus that on December 31, 2015 the robust revenues generated a net income margin of 14% for the full year of 2016.

Financial Position

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱428.52 million for the year ended December 31, 2016, a net increase of 40% or ₱122.63 million from consolidated cash and cash equivalents of ₱305.89 million as at December 31, 2015. On April 2016, the Parent Company's overnight top-up placement raised ₱1,243.20 million in equity funds.

Accounts Receivable

The Group's consolidated accounts receivable amounted to ₱956.90 million and ₱734.32 million as at December 31, 2016 and December 31, 2015, respectively, representing an increase of 30% or ₱222.58 million. In December 31, 2016, trade receivables were valued at ₱933.66 million, whereby Yondu and AOC accounted for ₱419.60 million (45% of the total) and ₱330.62 million (35% of the total), respectively.

Financial Assets at Fair Value through Profit or Loss

The total Net Asset Value (NAV) and fair value of the Fund as at December 31, 2016 and December 31, 2015 was ₱335.92 million and ₱80.32 million, respectively. Part of the funds raised by the Parent Company after the overnight top-up placement was placed in the SB Money Market Fund while waiting for the appropriate use of the proceeds. The SB Money Market Fund was invested in a diversified portfolio of primarily short-term fixed income instruments.

Other Current Assets

The Group's consolidated other current assets totaled ₱52.63 million, an increase of ₱8.33 million or 19% from its previous level on December 31, 2015 at ₱44.30 million. Prepaid expenses and Input VAT comprised majority of other current assets.

Available for Sale Financial Assets

As of December 31, 2016, the Group's available for sale financial assets amounted to ₱152.97 million, which increased by ₱67.36 million from its previous level on December 31, 2015. These are investments in Pico Candy Pte. Ltd. (₱3.60 million), MatchMe Pte. Ltd. (₱52.50 million), Altitude Games Pte. Ltd. (₱28.86 million), Einsights Pte. Ltd. (₱23.48 million), Club Punta Fuego (₱0.30 million), and Quick.Ly Inc. (₱44.24 million).

Investment in Associates

As of December 31, 2016, the Group's consolidated Investment in Associates amounted to ₱549.86 million, a 435% increase from its figure of ₱102.81 million in December 31, 2015. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱27.84 million), Altitude Games Inc. (₱0.35 million), MatchMe Pte. Ltd. (₱56.19 million), SDI (₱8.20 million), and Micro Benefits (₱457.27 million).

Property and Equipment

The Group's consolidated Property and Equipment was ₱80.53 million in December 31, 2016 vis-à-vis ₱58.18 million in December 31, 2015, or an increase of 38%. This was a result of adding ₱50.30 million worth of said assets in the period ended December 31, 2016. Depreciation expense amounted to ₱26.28 million in the full year ended December 31, 2016. Property and Equipment mainly consisted of leasehold improvements, information technology equipment, furniture and fixtures, and leased assets.

Intangible Assets

Intangible assets of ₱3,798.70 million as at December 31, 2016 were recognized in relation to the Group's acquisitions and investments. The amortized amount was ₱22.35 million or 1.18% of the December 31, 2015 figure at ₱1,888.28 million. The major components are customer relationship, goodwill, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of December 31, 2016, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's non-contractual and contractual agreements with Globe Telecom, Inc., its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2016, customer relationship is valued at ₱1,077.81 million.
- 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 of December 31, 2016, developed software net book value is at ₱162.51 million. Amortization of developed software for the year ended December 31, 2016 amounted to ₱19.87 million.

- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2016, leasehold rights net book value is at ₱13.75 million. Amortization of Leasehold rights for the year ended December 31, 2016 amounted to ₱2.48 million.

Pension Asset

The Group's recorded pension asset as of December 31, 2016 was at ₱2.39 million, compared to the previous year at nil.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱62.28 million as at December 31, 2016, higher by 46% vis-à-vis its December 31, 2015 level at ₱42.52 million.

Other Noncurrent Assets

Other Noncurrent Assets amounted to ₱55.76 million As of December 31, 2016. This figure is 7% higher than the value posted as of December 31, 2015 at ₱52.13 million. This is advances to affiliates and primarily rental deposits amounting to ₱22.08 million and ₱20.04 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱413.73 million as of December 31, 2016 was a 77% increase from its December 31, 2015 figure of ₱233.50 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱257.61 million (₱189.02 million from AOC), deferred trade output VAT at ₱55.60 million (₱45.05 million from Yondu Inc.), and accrued expenses at ₱37.79 million (₱35.15 million from Yondu).

Loans Payable – current portion

The Group's loans payable is attributable to the Group's local bank loans amounting to ₱3.00 million as of December 31, 2016 compared to ₱14.00 million in 2015. These interest-bearing, short-term loans are payable in 60 days.

Income Tax Payable

The Group's consolidated income tax payable as of December 31, 2016 amounted to ₱64.44 million, an increase of 64% from the December 31, 2015 figure of ₱39.24 million.

Liability for Written Put Option

Based on PAS 32, *Financial Instruments: Presentation*, "...a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to ₱864.71 million and ₱853.18 million, as of December 31, 2016 and December 31, 2015, respectively.

Payable to former shareholders of a subsidiary

The Group recorded ₱314.13 million in contingent liability as at December 31, 2016 compared to nil the previous year.

Other Current Liabilities

The Group's other current liabilities amounted to ₱127.72 million in December 31, 2016 compared to ₱289.24 million in 2015, a decrease of 56%. The decrease of ₱161.52 million was mostly from the decrease in dividends payable (₱69.00 million from Yondu from a carrying amount of ₱116.49 million in 2016).

Loans Payable – non-current portion

The Group recorded ₱14.00 million and nil in non-current loans in December 31, 2016 and 2015, respectively. This is attributable to the loans of Seer which are interest-bearing, long-term (more than 360-days), and collateralized against Seer's trade receivables.

Deferred Tax Liability

As of December 31, 2016, the deferred tax liability (net) was at ₱363.85 million, an increase of 1% or ₱3.26 million from ₱360.59 million as of December 31, 2015. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Finance Lease- net of current portion

The Group 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%. The Group's finance lease net of current portion is ₱1.16 million in December 31, 2016 compared to nil in 2015.

Pension Liability

The accrued pension of the Group is at ₱28.91 million, which was a 29% or ₱11.96 million decrease from December 31, 2015 levels at ₱40.87 million. The decrease in pension liability was a result of Yondu's pension contribution to its retirement plan fund during the month of April 2016 and from organizational restructuring that Xeleb Technologies (formerly Fluxion, Inc.) undertook, which lessened the amount of pension accrued.

Equity

Total Equity

The Group's total equity As of December 31, 2016 was at ₱3,789.50 million, a 142% increase from its December 31, 2015 level at ₱1,563.75 million. On April 29, 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 as additional paid-in capital. The net increase in total equity was a result of additional paid-in capital of ₱2,123.40 million, increase of ₱129.01 million in retained earnings, and increase of ₱14.76 million in capital stock as of December 31, 2016. Likewise, As of December 31, 2016, equity reserve of ₱892.22 million was recorded pertaining to the liability for written option. On November 14, 2016, the Parent Company commenced its share buyback program following its Board approval for the allotment of ₱170.00 million on November 9, 2016. As at December 31, 2016, treasury stocks acquired totaled to 8,532,900 shares which amounted to ₱71.51 million. Non-controlling interests were at ₱830.17 million in December 31, 2016, an 8% increase from its figure in December 31, 2015 at ₱771.52 million.

Liquidity and Capital Resources

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

Cash Flows

In PhP Millions	For the 12 months ended December 31	
	2016	2015
	Amount	Amount
Net cash provided by (used in) Operating Activities	17.89	(7.93)
Net cash provided by (used in) Investing Activities	(887.03)	(559.68)
Net cash provided by (used in) Financing Activities	1,009.41	(84.18)
Effect of foreign currency exchange changes in cash	(17.64)	(0.25)
Net increase (decrease) in cash	122.63	(652.03)
Cash at beginning of period	305.89	957.92
Cash at end of period	428.52	305.89

Cash Flows Provided by Operating Activities

For the full year of 2016, operating income of ₱522.27 million was coupled with the corresponding increase in account receivables and the decrease in account payables for a resulting ₱176.09 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash provided by operating activities of ₱17.89 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for subsidiaries and associates for the full year of 2016 was ₱887.03 million compared to ₱559.68 million in the same period of 2015. The cash used in investing activities were mostly from the purchase of investment in associate, specifically Micro Benefits in 2016. The investment in Micro Benefits together with its other fees amounted to ₱469.78 million.

Cash Flows Provided by (Used in) Financing Activities

The Group's consolidated net cash flow provided by financing activities for the full year ended December 31, 2016 was ₱1,009.41 million, compared to ₱84.18 million net cash flow used as of December 31, 2015. For the year 2016, consolidated net cash flow provided by financing activities was attributable mainly to the issuance of new common shares worth ₱1,243.20 million, net loan availment amounting to ₱3.00 million, and dividends paid amounting to ₱86.78 million.

Capital Expenditure

The Group's capital expenditures through business combinations and regular means, for the year ended December 31, 2016 and the year ended December 31, 2015 amounted to ₱50.93 million and ₱57.77 million, respectively.

Key Financial Data In Php Millions	December 31, 2016 Additions		December 31, 2015 Additions	
	Business Combination	Regular	Business Combination	Regular
Office Equipment	0.06	2.34	0.53	1.63
IT Equipment	0.51	15.06	16.05	6.51
Furniture and Fixtures	0.07	7.12	1.00	1.74
Leasehold Improvements	-	23.98	23.94	3.43
Leased Asset	-	1.81	2.86	-
Transportation Equipment	-	-	0.08	-
	0.63	50.31	44.46	13.31

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at ₱805.43 million as at December 31, 2016 and nil for the previous year. 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.

Key Performance Indicators

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

In Percentage	For the years ended December 31		
	2016	2015	2014
Liquidity Ratios			
Current Ratio	105%	83%	1242%
Quick Ratio	102%	80%	1238%
Asset-to-Equity Ratio	219%	428%	112%
Profitability Ratios			
Net Income Margin	11%	25%	48%
Gross Margin	41%	57%	70%
Operating Margin	24%	39%	64%
Return on Total Assets	7%	9%	20%
Return on Equity	14%	19%	23%

Current Ratios

Current Ratio and Quick Ratios in December 31, 2016 were 105% and 102%, respectively, an increase from their respective 83% and 80% figures during the full year of 2015. The increase in both ratios was primarily from the significant increase in current assets of the Group for that period vis-à-vis the increase in current liabilities.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 428% in December 31, 2015 to 219% in December 31, 2016 resulted from the large increase in equity, particularly additional paid-in capital and retained earnings. The increase in additional paid-in capital was a result of the April 2016 issuance and subscription of shares.

Profitability Ratios

Profitability margins decreased from December 31, 2015, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (41%), Net Income Margin (11%), Operating Margin (24%), Return on Total Assets (7%) and Return on Equity (14%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, expansion of operations offshore, salaries and wages paid to the Group's new employees for its organizational build-up program; and payment of professional and legal fees incurred from investments and acquisitions.

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

Current Ratios

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

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

Other Disclosures:

- i. Liquidity. There are no known trends, events, or uncertainties that will result in the Group's liquidity increasing or decreased in a material way.
- ii. Events that will trigger Direct or Contingent Financial Obligation. There are no events that will trigger direct or contingent financial obligations that are material to the Group, including and default or acceleration of an obligation.
- iii. Material Off-balance sheet Transactions, Arrangements, Obligations. Likewise, there were no materials off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the group with unconsolidated entities or other persons created during the reporting period.
- iv. Material Commitments for Capital Expenditure. There are no material commitments for capital expenditures.
- v. Material Events/ Uncertainties. There are no known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are non-material.

IV. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The consolidated financial statements of the Group, which comprise of the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, 2017 and 2016 were audited by SGV & Co., independent auditors, in accordance with Philippine Standards on Auditing (PSA).

SGV & Co. has acted as the Group's independent auditors since 2008. The Company has not had any material disagreement on accounting and financial disclosure with SGV & Co. for the periods stated above or during interim periods.

V. EXTERNAL AUDIT FEES AND SERVICES

The aggregate fees billed for each of the last two calendar years for professional services rendered by the external auditor were ₱1,800,000 and ₱1,056,000 for 2018 and 2017, respectively. The audit fees for 2019 are estimated to be at ₱1,980,000. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, tax consultancy and assistance in the preparation of annual income tax returns.

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

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

VI. DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

Evaluation system to measure the level of compliance with the Manual on Corporate Governance

The Company has undertaken a self-rating assessment and performance evaluation exercises in relation to its policies for the purpose of monitoring compliance.

Measures to comply with the adopted leading practices on good corporate governance

The Company has appointed a Compliance Officer who shall monitor compliance with the requirements of its revised Manual on Corporate Governance. The Company has also established a Corporate Governance Committee that has the responsibility of ensuring the implementation of its governance principles and policy guidelines.

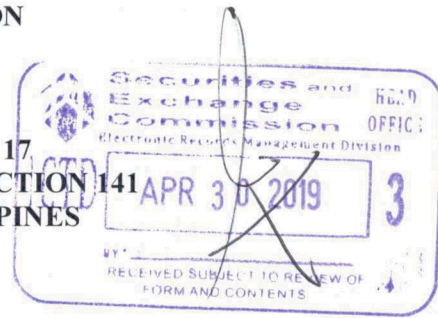
Plans to improve

The Board and Committees undertake to take further steps to enhance adherence to principles and practices of good corporate governance. The Company undertakes to periodically review its policies and guidelines, and ensure compliance with all SEC and PSE mandated corporate governance memorandums.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

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



- 1. For the fiscal year ended December 31, 2018
- 2. SEC Identification Number A200117708 3. BIR Tax Identification No. 219-934-330-000
- 4. Exact name of issuer as specified in its charter XURPAS INC.
- 5. PHILIPPINES 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
- 7. 7th Floor, Cambridge Centre 108 Tordesillas St.
Salcedo Village, Makati City 1227
Address of principal office 1227
Postal Code



- 8. (632) 889-6467
Issuer's telephone number, including area code
- 9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Shares	1,870,940,210

As of December 31, 2018, 33.34% of Xurpas Inc.'s common shares are owned by the public.

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

Yes [X] No []

A total of 1,797,700,660 common shares are listed in the Philippine Stock Exchange as of December 31, 2018.

12. Check whether the issuer:

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

Yes [X] No []

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

Yes [] No []

13. Aggregate market value of the voting stock held by non-affiliates as of December 31, 2018 amounted to ₱1,072,915,120.92. The price used for this computation is the closing price as of December 31, 2018 is ₱1.72

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

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

Yes [] No []

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) Any annual report to security holders;
- (b) Any information statement filed pursuant to SRC Rule 20;
- (c) Any prospectus filed pursuant to SRC Rule 8.1.

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. Business

Xurpas Inc. (“Xurpas” or the “Company”) is a technology company specializing in the creation and development of digital products and services for mobile end-users, as well as the creation, development, and management of proprietary platforms for mobile operators. Xurpas provides mobile marketing and advertising solutions integrated in these consumer digital products and platforms for the consumption of mobile users. The Company is also engaged in platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services. This includes information technology (IT) staff augmentation and various enterprise solutions-based services to Telcos and other companies for network and applications development.

Today, the Company’s main business units comprise of: 1) Mobile consumer products and services; 2) Enterprise solutions; and 3) Other services (HR technology services).

On November 12, 2014, the Philippine Stock Exchange (“PSE”) approved the initial public offering of the Company and offer of 344.00 million common shares at an offer price of ₱3.97 per share. On December 2, 2014, the common shares of Xurpas were listed in the PSE.

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

In February 2015, the Company acquired a 51% controlling stake in Storm Flex Systems, Inc. (currently registered as Storm Technologies Inc., referred herein as “Storm”), to enable Xurpas to expand beyond telecommunication networks and into corporations through offering human resource (“HR”) technology solutions. As of date, Xurpas owns 57% controlling stake in Storm.

In June 2015, Xurpas acquired 70% controlling stake in Seer Technologies Inc. (“Seer”), a company engaged in software consultancy, design, development and managed services focused on mobile, cloud and data technologies. In the same month, the incorporation of Xeleb Inc. (“Xeleb”) was approved by the Securities and Exchange Commission (the “Commission”). Xeleb is engaged in the development, design, sale and distribution of celebrity-branded games and applications.

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

Xurpas Enterprise Inc. (“Xurpas Enterprise”) was incorporated in March 2016. Xurpas Enterprise was created to primarily engage in the business of software development including designing, upgrading, and marketing all kinds of information technology systems to corporate clients. In the same month, the Company acquired 23.53% ownership in Micro Benefits Limited (“Micro Benefits”), a company registered in Hong Kong. Micro Benefits is engaged in the business of providing employee benefits to Chinese workers through its operating company, Micro Benefits Financial Consulting (Suzhou) Co. Ltd, China.

On April 26, 2016, Xurpas conducted an overnight placement with partial top up (“Overnight Top Up Placement”) wherein three shareholders sold an aggregate of 155,400,000 common shares and

accordingly, subscribed to 77,700,000 common shares (“Subscription Shares”) from the Company’s authorized capital stock. The Company raised an aggregate of ₱1.2 billion gross proceeds from issuance of the Subscription Shares, which was intended to support its growth strategy and fund its capital expenditure program.

On October 6, 2016, Xurpas acquired 100% stake in Art of Click Pte. Ltd (“AOC”), a company registered under the laws of Singapore and engaged in the business of mobile media advertising that offers a marketing platform for advertisers.

Xurpas currently owns 67% of Xeleb Technologies Inc. (formerly Fluxion, Inc.) (“Xeleb Technologies”). Xeleb Technologies, and its wholly owned subsidiary, Xeleb, develops digital products and services, with a particular focus on celebrity-branded and themed mobile Casual Games and Content for consumers.

In 2018, the Company announced projects which leverage on blockchain technology. The Company incorporated a wholly owned subsidiary in Singapore, ODX Pte. Ltd. (“ODX”), which stands for *Open Data Exchange*. ODX intends to allow consumers in emerging markets to access the internet for free, through sponsored data packages.

The list of companies on which Xurpas has voting interest as of December 31, 2018 and 2017 are as follows:

	Percentage of Voting Interest	
	2018	2017
Xeleb Technologies Inc. (formerly Fluxion, Inc.)	67.0%	67.0%
Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.)	53.96%	56.6%
Xeleb Inc.	67.0%	67.0%
Seer Technologies Inc.	70.0%	70.0%
Yondu Inc.	51.0%	51.0%
Rocket Search Inc. (formerly Yondu Software Labs Inc.)	51.0%	51.0%
Xurpas Enterprise Inc.	100.0%	100.0%
Art of Click Pte. Ltd.	100.0%	100.0%
PT Sembilan Digital Investama	49.0%	49.0%
MatchMe Pte. Ltd.	29.10%	28.6%
Micro Benefits limited	23.5%	23.5%
Altitude Games Pte. Ltd	21.8%	21.8%
Altitude Games Inc.	21.2%	21.2%
Zowdow, Inc. (formerly Quick.ly Inc.)	3.6%	3.6%
ODX Pte. Ltd.	100.0%	-

PRODUCTS AND SERVICES

Mobile Consumer Services

Mobile Consumer Services includes airtime management, content development and management, and marketing and advertising solutions. The Company creates and develops mobile consumer content and other value-added services for mobile phone subscribers such as online casual games, info-on-demand services (e.g., news, social and other entertainment information), chat and messaging applications (e.g., mobile stickers), ringtones, licensed or unlicensed content such as music, videos, as well as mobile marketing and advertising solutions. In addition, for its online casual games (e.g. Grab-a-Gold, GlobeGameswithFriends and PlaySmart) and mobile casual game applications (e.g. Run Super V and Anne Galing!), each of which has been tailored to an internet and online consumer base, the Company

develops and maintains its own platforms that host and enable mobile subscribers to access or use such products. The provision of these products and services for end-users is performed by the Company's mobile consumer content and services segment.

Content Provider Agreements with Telcos

As of December 31, 2018, the Company is a party to content provider agreements with all three of the Philippines leading Telcos, namely, Smart Communications, Inc., Globe Telecom Inc. and Sun Cellular.

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

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

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

In 2018, Globe Telecom Inc. implemented new policies which directly affected all of its VAS providers, including the Company. The said new policies caused a significant decline in the Company's mobile consumer services revenue.

For the year ended December 31, 2018, the Group's total revenue and net loss from its mobile consumer products business before intersegment adjustments were ₱314.24 million and ₱801.26 million, respectively, while total revenue and net income before intersegment adjustments from its mobile consumer products business for the year ended December 31, 2017 amounted ₱1,599.60 million and ₱317.80 million, respectively.

Enterprise Services

The Company develops, on its own or in close collaboration with other technology companies, mobile platform solutions for the benefit of clients such as Telcos, government agencies, and other top-tiered companies. These products, which are tailored to a client's particular requirements and are used by millions of mobile subscribers at any given time, comprise the Company's enterprise services segment and include mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce.

The Company, through its subsidiaries, develops and customizes information technology platforms, provides system integration, mobile platform consultancy, manages off-the-shelf application and social media-related services.

Enterprise Services also includes information technology staff augmentation and various enterprise solutions-based services to Telcos and other companies for network and applications development.

For the year ended December 31, 2018, the Company's total revenue and net loss from its enterprise business before intersegment adjustments were ₱909.85 million and ₱54.66 million, respectively, while total revenue and net loss before intersegment adjustments from its enterprise business were ₱721.36 million and ₱22.98 million, respectively, for the year ended December 31, 2017.

Other Services

The Company, through its subsidiary Storm, provides HR technology solutions to its clients. Storm developed a proprietary online platform which allows employees of any company that has signed with Storm to exchange his or her current employee benefits and transform them into products and services such as mobile phones, gadgets, or financial training services, called 'StormFlex.' Storm also offers the same service for employees who are rewarded with points for accomplishing set milestones or objectives by their employer. The Company's subsidiary designs, develops, and customizes the HR technology platforms and streamlines the logistical requirements for product and service fulfillment.

For the year ended December 31, 2018, the Company's total revenue and net loss from its other services before intersegment adjustments were ₱95.99 million and ₱104.65 million, respectively. While for the year ended December 31, 2017, the Company's total revenue and net loss before intersegment adjustments from its other services were ₱99.69 million and ₱63.82 million.

Blockchain Technology

In 2018, the Company announced the incorporation of its wholly owned subsidiary, ODX Pte. Ltd. ("ODX"), an entity registered in Singapore, that will allow consumers in emerging markets to access the internet for free, through sponsored data packages. ODX pre-sold tokens and the proceeds from the said sale, amounting to \$4,999,960 will be used to start building the ODX infrastructure and for business development. The Company announced that some of its subsidiaries/affiliates also launched blockchain technology projects.

COMPETITION

For its mobile consumer content development business, the Company competes with over 100 mobile consumer content providers. However, the Company believes that its primary competitors comprise the internal mobile consumer content development divisions of its own client Telcos and other companies such as Information Gateway, Inc., ABS-CBN Mobile, GMA New Media, Inc., G- Gateway, Zed, Wolfpac and Rising Tide. Chikka Philippines, Inc. is the mobile consumer content development division of Smart Communications and generates and provides the latter with mobile consumer content and services. On the other hand, ABS-CBN Mobile and GMA New Media, Inc. primarily provide access or subscription to licensed or unlicensed content such as music, videos and other content of similar nature associated with, produced or distributed by their affiliated mass media networks. For its mobile marketing and advertising solutions business, the Company considers the following as competitors: TradeMob, Fiksu, Mobvista, Glispa, and Avazu.

For its enterprise development business, which now includes Seer and Yondu, the Company considers Stratpoint, Pointwest, and Novare, as its main competitors, providing outsourced web and mobile applications development services or cloud services for their clients. Primary competitors of Yondu's

Information Technology (IT) staffing solutions business segment are 77 Global, K-Force, Tech Mahindra, Amdocs, Sysgen and other medium-scale IT companies.

For the Company's other services, which refers to the flexible benefits and performance benefits business of Storm, the main competitor is Takatack Rewards, Towers Watson, Mercer, Venty, Kudos Canada, Globoforce, and My Checkpoints.

KEY RISKS

Reliance on third party transmission and distribution infrastructure

As a mobile telecommunications value-added services provider, the Company relies on the transmission, switching and local distribution facilities of Telcos to which it provides mobile digital content and services. The Telcos own, operate and maintain these transmissions, switching and local distribution facilities and the Company itself does not have any right to participate or intervene in the operation or maintenance thereof. In 2018, the Company's business was severely affected when Globe Telecom, Inc. implemented new and stricter opt-in guidelines for customers who sign up for VAS subscription. The Company's revenue from its mobile consumer services significantly declined as a result of this. The Company has disclosed that it is strengthening and enhancing its enterprise services and HR technology services in light of the ongoing challenges in its mobile consumer segment.

Short Term Agreement with Telcos

The Company derives a significant portion of its revenues from its share of the fees paid by mobile phone subscribers of its client Telcos to access, subscribe to or to use mobile consumer content and services created or developed by the Company pursuant to its content provider agreements with such Telcos. The Company's existing content provider agreements with its client Telcos are generally short-term in nature, with terms ranging from one to five years. In each case, there is no guarantee that such agreements will be renewed upon expiration thereof. Nevertheless, to mitigate reliance on its existing content provider agreements with such Telcos, the Company has acquired/invested in several foreign entities to expand its mobile operator client base to Telcos or other mobile operators outside the Philippines.

Ability to maximize and adapt to new technologies

The Company has disclosed that its acquisition and investment in various technology entities is aimed at creating platforms that offers a market place of technology products that consumers can choose from. The Company has equipped itself with various technologies to create the necessary platforms it can offer to the consumers. The Company's success will depend on its ability to maximize the potentials of these acquired technologies. Moreover, since the technology industry continues to develop at a robust pace, the Company will need to consider as part of its growth strategy that these technologies will need to be consistently updated, enhanced or developed to minimize risk on these becoming obsolete or impractical.

Defaults or delays in fulfilling its contractual obligations

The Company has entered into existing short-term loan agreements to accommodate the payment of one of its investments and to meet its operational requirements. Considering the substantial decline in revenues of the Company attributed to the performance of its mobile consumer segment, the Company may not be able to fulfill its obligations in the repayment of the said short term loans when it falls due. The Company may not be able to continue with its operations if it fails to obtain sufficient funding for its day to day operations and debt service payments. The Management coordinates with its creditors for the refinancing or restructuring of its short-term loans. The Company has not been declared in default by its creditors and have also been current with its interest payments.

TRANSACTIONS WITH RELATED PARTIES

The Company has likewise secured loans from its key shareholders. See Note 20 of the Company's consolidated financial statements for transactions as of December 31, 2018.

On February 20, 2019, the board of directors approved the execution of a loan agreement wherein the key shareholders of the Company agreed to extend an aggregate of Php150 million loan to be used to fund enterprise projects and for general corporate purposes.

INTELLECTUAL PROPERTY

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

Platforms

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

- The Griffin SMS Gateway allows the Company to connect to any of its client Telco's SMS center, which represents the heart of any Telco's wireless network handling all SMS operations, such as routing, forwarding and storing SMS messages, using popular protocols.
- The Griffin SMS Gateway contains a "Multi-Function Middleware" feature that allows the Company to interface with its client Telco's "Intelligent Network", which is the network that allows a Telco to offer value-added services to its mobile subscribers on top of its standard services (voice and call services) through UCIP or Diameter, MMSCs via MM7, or billing systems via proprietary SOAP-XML or other proprietary HTTP-based protocols.
- The Java API of the Griffin SMS Gateway allows the Company's application developers to write code that can easily be integrated or deployed across multiple carriers that may have different systems.

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

- The Mobile360 SMS platform allows the Company to create, process, and analyze SMS services through connectivity with partner Telcos' wireless network.
- The Mobile360 SMS platform allows the Company to provide SMS connectivity to third-party independent developers, software development houses, solutions integrators, and content providers through APIs that can be incorporated into their codes.

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

Trademarks

The Company likewise owns exclusive rights to its corporate name, as well as various brand names and marks that are used for its operations. Provided below is the summary of all marks registered in the name of the Company or any of its subsidiaries:

Holder	Mark	Registration Number	Date Filed	Date Registered
Xurpas Inc.	XUPERGAMES	42016004317	April 25, 2016	October 10, 2016
Xurpas Inc.	SELFIE.PH	42014009255	July 25, 2014	June 25, 2015
Xurpas Inc.	GRAB-A-GOLD	42014009260	July 25, 2014	December 11, 2014
Xurpas Inc.	FLUXION	42014009259	July 25, 2014	December 11, 2014
Xurpas Inc.	PLAYSMART	42014009254	July 25, 2014	December 11, 2014
Xurpas Inc.	#SELFIE	42014009257	July 25, 2014	December 11, 2014
Xurpas Inc.	Xurpas	42007004775	May 11, 2007	October 8, 2007
Xurpas Inc.	Xurpas	42017003342	March 8, 2018	October 5, 2017
Xurpas Inc.	Xurpas	42017003343	March 8, 2017	June 29, 2017
Xurpas Inc.	Art of Click	42017003340	March 8, 2017	August 31, 2017
Xurpas Inc.	Seer	42017003341	March 8, 2017	August 31, 2017
Xurpas Inc.	XE	42017003346	March 8, 2017	August 31, 2017
Xurpas Inc.	AppXentral	42017003344	March 8, 2017	June 29, 2017
Xurpas Inc.	Xurpas Enterprise	42017003345	March 8, 2017	June 29, 2017
Xurpas Inc.	Xupergames	42016004317	April 25, 2016	October 20, 2016
Xurpas Inc.	Balikbayan Box It	42017017366	August 12, 2018	October 26, 2017
Xurpas Inc.	Xuper Tsikot	42017017362	October 26, 2017	March 29, 2018
Xurpas Inc.	Supernova Escape	42017017365	October 26, 2017	March 29, 2018
Xurpas Inc.	Beast Mode On	42017017363	October 26, 2017	March 29, 2018
Xurpas Inc.	Kumander Kuting	42017017364	October 26, 2017	March 29, 2018
Xurpas Inc.	Makefree	42017018310	November 10, 2017	Pending
Xurpas Inc.	ODX	42018008396	May 21, 2018	Pending
Xurpas Inc.	X	42018008395	May 21, 2018	Pending
Xurpas Inc.	Makefree	42018022480	December 19, 2018	Pending
Xeleb Technologies Inc.	Xeleb	42015005359	May 19, 2015	October 19, 2015
Xeleb Technologies Inc.	Trivia Time with Kuya Kim	42016004316	April 25, 2016	December 22, 2016
Xeleb	Xeleb Technologies	42017003700	March 14, 2017	August 31, 2017

Technologies Inc.				
Xeleb Technologies Inc.	Popster	42017003704	March 14, 2017	June 29, 2017
Xeleb Technologies Inc.	Jejemonster	42017003703	March 14, 2017	June 29, 2017
Xeleb Technologies Inc.	Jologs	42017003699	March 14, 2017	June 29, 2017
Xeleb Technologies Inc.	Jejemon	42017003702	March 14, 2017	June 29, 2017
Xeleb Technologies Inc.	Super Belle	42017000346	January 11, 2017	May 4, 2017
Xeleb Technologies Inc.	Master Erwan's Foodcart	42017000082	January 4, 2017	May 4, 2017
Xeleb Technologies Inc.	Empire of Pink	42017000345	January 11, 2017	May 4, 2017
Xeleb Technologies Inc.	Trivia Time with Kuya Kim	42016004316	April 25, 2016	December 22, 2016
Xeleb Technologies Inc.	Xeleb Live	42018003222	February 21, 2018	September 6, 2018
Xeleb Technologies Inc.	Xeleb Live	42018003220	February 21, 2018	September 6, 2018
Xeleb Technologies Inc.	Xeleb Live	42018003224	February 21, 2018	September 6, 2018
Xeleb Technologies Inc.	Xeleb Live	42018003225	February 21, 2018	September 6, 2018
Xeleb Technologies Inc.	No Verbal Elements	42018003219	February 21, 2018	September 6, 2018
Xeleb Technologies Inc.	Adventures of Kuya Kim	42017018334	November 10, 2017	May 24, 2018
Xeleb Technologies Inc.	Anne Kulit ni Mogwai	4201717358	October 26, 2017	March 29, 2018
Xeleb Technologies Inc.	Train Ubusan	42017017360	October 26, 2017	March 29, 2018
Xeleb Technologies Inc.	Erwan Youchop	42017017359	October 26, 2017	March 29, 2018

Xeleb Inc.	Trip ni Belle	42016004318	April 25, 2016	October 20, 2016
Xeleb Technologies Inc.	Anne-Galing	42015005360	May 19, 2015	November 19, 2015
Yondu Inc.	Spinvia	42016003313	March 30, 2016	July 28, 2016
Yondu Inc.	Weplay	42016003312	March 30, 2016	July 28, 2016
Yondu Inc.	Asktracey	42016003310	March 30, 2016	July 28, 2016
Yondu Inc.	Daily Dose	42016003311	March 30, 2016	July 28, 2016
Yondu Inc.	Mobile360	42018015481	September 6, 2018	November 8, 2018
Yondu Inc.	Yondu	40218015482	September 6, 2018	November 8, 2018

REGULATION AND KEY LICENSES

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

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

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

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

EMPLOYEES

The Company believes that its relationship with its employees is generally good and, since the start of its operations, the Company has not experienced a work stoppage as a result of any labor or labor-related disagreements. None of the Company's employees belong to a union. The Company has implemented cost-cutting measures to manage its day to day operations taking into account the challenges encountered by its mobile consumer services segment.

The table below sets forth the breakdown of the Company's labor complement, grouped according to function, as of December 31, 2018:

Executives	3
Accounting, Finance, Human Resources and Administrative	14

Marketing	9
Technical Staff	<u>36</u>
Total	<u>62</u>

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

PLANS AND PROSPECTS

The Company intends to grow its overall business by:

- 1) Developing products and platforms to serve the emerging market mobile subscriber;
- 2) Improving the revenue mix of the Group's digital advertising segment; and
- 3) Implementing aggressive sales strategies of the enterprise and HR technology segments to pursue a broader local captured market.

Integrating content from investments to become platform-focused

The Company will continue to create its own mobile consumer products. The Company will also enhance its offerings for the mobile consumer segment by integrating them with products and services offered by its subsidiaries and affiliates. In addition to the regular creation of mobile consumer content, particularly casual games, the Company also plans to create content platforms and form partnerships with third party content providers.

Enhancement of content creation capabilities and enterprise solutions

Depending on the opportunities presented, the Company will continue to make meaningful partnerships intended to create and provide proprietary technologies and content to improve its ability to create, develop and distribute content within the Philippines and the Asian Region and to expand its existing product and services portfolio. For this purpose, the Company aims to work with other local or international technology companies with content, capabilities, and technologies consistent with the Company's over-all market strategy.

The Company plans to expand their ability to distribute their products and services to new customers in Southeast Asia and East Asia to reach new corporate customers. To do this, the Company intends to undertake operations within Southeast Asia and East Asia region. Through key partnerships with existing investments, the Company may reach new markets that operate in similar conditions to the Philippine HR and IT outsourcing market.

ITEM 2. Properties

The Company does not hold any real property of material value. As of December 31, 2018, the Company has transportation, office equipment, IT equipment, furniture and fixtures, leasehold improvements and leased assets with a net book value of ₱59.52 million.

The Company's offices are presently located at 6th and 7th Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City, Philippines, which is leased by the Company from Gervel, Inc.

Operating Lease Commitments

- a. The Company entered into a lease contract with Gervel, Inc. for an office space (7th Floor Cambridge Centre Building) for a period of three years commencing on April 1, 2014 and expiring on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

In 2017, the Company renewed its lease contract for a period of three (3) years commencing on April 1, 2017 and expiring on March 21, 2020, The applicable rate per month is ₱0.27 million, with a corresponding annual increase of 4%.

- b. The Company executed another agreement with Gervel, Inc. to lease the 4th Floor of Cambridge Centre Building commencing October 1, 2015 to March 31, 2017. The contract can be renewed in writing upon mutual agreement by the parties. In 2017, the Parent Company renewed its contract for a period of three (3) years commencing on April 1, 2017 and expiring on March 31, 2020. The applicable rate per month is ₱0.29 million and a corresponding annual increase of 4%. The lease contract was pre-terminated through mutual agreement of the parties on March 30, 2019.
- c. In 2017, the Company entered into a non-cancellable lease contract with Gervel, Inc. for an office space for a period of two (2) years and four and a half (4.5) months which commenced on November 16, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.33 million. The lease contract may be renewed in writing by mutual agreement of the parties.

ITEM 3. Legal Proceedings

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

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. Market for Registrant’s Common Equity and Related Stockholder Matters

Market Information

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

Xurpas’ common shares were listed with the Philippine Stock Exchange, Inc. on December 2, 2014. The high and low stock prices for 2016, 2017, 2018 and the 1st quarter of 2019 are indicated below:

	High	Low
2019		
1 st Quarter	2.33	1.09
2018		
1 st Quarter	5.93	3.10
2 nd Quarter	3.92	3.00
3 rd Quarter	3.72	2.02
4 th Quarter	2.39	1.04
2017		
4 th Quarter	5.94	3.10
3 rd Quarter	9.07	5.20
2 nd Quarter	10.54	7.40
1 st Quarter	10.50	7.09
2016		
4 th Quarter	15.12	7.11
3 rd Quarter	18.18	13.38
2 nd Quarter	20.00	14.80
1 st Quarter	18.90	11.40
1 st Quarter	12.60	9.30

The market capitalization of the Company’s common shares as of end-2018, based on the closing price of ₱1.72/share, was approximately ₱3.22 billion versus ₱10.05 billion the previous year.¹

The price information of Xurpas’ common shares as of the close of the latest practicable trading date, April 29, 2019, is ₱1.15.

Holders

There are twenty-six registered holders of common shares, as of March 31, 2019 (based on number of accounts registered with the Stock Transfer Agent).²

	Stockholder’s Name	Number of shares	Percentage to total	Nationality
1.	PCD Nominee Corp. (Filipino) ³	1,332,215,311	70.80	Filipino

¹ Xurpas has 1,870,940,210 outstanding common shares as of December 31, 2018.

² Based on the list of stockholders issued by BDO Unibank Inc. Stock and Investment Group, list includes PCD Nominees.

³PCD Nominee Corp. (Filipino) includes shares directly and indirectly owned by a) Mr. Nico Jose S. Nolloo; b) Mr. Raymond Gerard S. Racaza; and c) Mr. Fernando Jude F. Garcia. We note that a portion of shares of Messrs. Nolloo, Racaza and Garcia are not yet listed with the Exchange, but are included in PCD Nominee Corp. (Filipino). Further, PCD Nominee Corp. (Filipino) includes treasury shares.

2.	PCD Nominee Corp. (Non-Filipino)	374,639,226	19.91	Others
3.	Raymond Gerard S. Racaza	174,100,010	9.25	Filipino
4.	Nelson Gatmaitan	400,000	0.02	Filipino
5.	Emilie Grace S. Nolledo	251,889	0.01	Filipino
6.	Aquilina V. Redo	6,500	0	Filipino
7.	Rogina C. Guda	6,000	0	Filipino
8.	Dahlia C. Aspillera	2,900	0	Filipino
9.	Mercedita S. Nolledo	1,060	0	Filipino
10.	Wilfredo O. Racaza	1,060	0	Filipino
11.	Roberto B. Redo	1,000	0	Filipino
12.	Shareholders' Association of the Philippines	1,000	0	Filipino
13.	Joselito C. Herrera	500	0	Filipino
14.	Frederick D. Go	500	0	Filipino
15.	Dondi Ron R. Limgenco	111	0	Filipino
16.	Marietta V. Cabreza	100	0	Filipino
17.	Milagros P. Villanueva	100	0	Filipino
18.	Myra P. Villanueva	100	0	Filipino
19.	Myrna P. Villanueva	100	0	Filipino
20.	Philip &/or Elnora Turner	99	0	British-Indian
21.	Fernando Jude F. Garcia	10	0	Filipino
22.	Nico Jose S. Nolledo	10	0	Filipino
23.	Jonathan Gerard A. Gurango	10	0	Filipino
24.	Alvin D. Lao	10	0	Filipino
25.	Owen Nathaniel S. AUITF: Li Marcus Au	3	0	Filipino
26.	Joselito T. Bautista	1	0	Filipino
	Total	1,881,627,610	100%	Filipino

Dividends and Dividend Policy

Information on the Company's declaration of dividends follow:

Parent Company	Per Share	Total Amount	Record Date	Payable Date
Cash dividend declared on:				
May 8, 2017	0.05	92.85 million	May 23, 2017	June 15, 2017
May 10, 2016	0.048	86.27 million	May 31, 2016	June 23, 2016
April 29, 2015	0.40	68.80 million	May 14, 2015	June 2, 2015
September 20, 2014	0.56	36.00 million	June 30, 2014	September 30, 2014
June 5, 2014	0.47	30.25 million	December 31, 2013	June 30, 2014
November 18, 2013	5.13	16.67 million	September 30, 2013	November 29, 2013
July 22, 2013	1.03	3.33 million	June 30, 2013	July 31, 2013
May 6 2013	0.83	2.70 million	December 31, 2012	May 31, 2013
March 13, 2013	3.08	10.00 million	December 31, 2012	March 31, 2013

Stock dividend declared on:				
July 10, 2014	0.95 shares	61.25 million	September 20, 2014	September 20, 2014
May 5, 2014	18.85 shares	61.25 million	May 5, 2014	May 5, 2014

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

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

Recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction

1. Overnight Top-up Placement – April 26, 2016

On April 26, 2016, the Board of Directors of Xurpas approved the holding of a Placing and Subscription Transaction ("the Overnight Top-up Placement") wherein Messrs. Nico Jose S. Nollado, Raymond Gerard S. Racaza and Fernando Jude F. Garcia (the "Selling Shareholders") sold an aggregate of 155,400,000 common shares (the "Offer Shares") to investors (the "Placing tranche") and the Selling Shareholders subscribed to an aggregate of 77,700,000 common shares (the "Subscription Shares") or 4.32% of the new issued and outstanding capital shares of the Company ("Subscription tranche").

The first part of the Overnight Top-up Placement consists of the offer and sale of the Offer Shares by the Selling Shareholders to (i) Qualified institutional investors in the Philippines qualified as an exempt transaction in reliance on Section 10.1(c) and 10.1(l) of the Philippine Securities Regulation Code (the "SRC"); (ii) outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"); and (iii) within the United States to "qualified institutional buyers" as defined in, and in reliance on, Rule 144A under the Securities Act. SB Capital Investment Corporation and Decker & Co., LLC are the Joint Global Coordinators and led the selling syndicate in placing the Offer Shares with investors.

The second part of the Overnight Top-up Placement consists of the subscription by each Selling Shareholder to 1.4% of the Company's total issued and outstanding capital shares, in the form of new shares issued out of the authorized capital stock of the Company at a subscription price equivalent to the Offer Price. Xurpas claimed exemption from registration under Section 10.1(e) and (k) of the Securities and Regulation Code.

2. Acquisition of Art of Click Pte. Ltd (“AOC”) – October 6, 2016

On October 6, 2016, Xurpas signed a Share Purchase Agreement with Emmanuel Michel Jean Allix and Wavemaker Labs Pte. Ltd. (the "Sellers") for the acquisition of 100% shares in AOC for an aggregate consideration of ₱1.40 billion in cash and in Xurpas shares. AOC 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 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 Xurpas' 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.

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 Xurpas their respective proportionate share in the Sale Shares. This was subsequently waived.

On June 2017, amendments were made to the share purchase agreement with one of the sellers, Emmanuel Michel Jean Allix (“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.

On July 18, 2017, Xurpas reacquired 53,298,242 common shares Upfront Payment issued at acquisition date to Allix, a former shareholder of AOC, for a consideration of US\$532,983 or 26.65 million.

On October 3, 2017, Xurpas 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, there will be 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. Three shareholders of Xurpas sold their shares to Wavemaker, as an advance on behalf of Xurpas. The said shareholders, then subscribed to an aggregate of 67,285,706 Xurpas shares to replace the shares already advanced. Xurpas is claiming exemption from registration under Section 10.1(k) of the Securities and Regulation Code.

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.

On October 3, 2017, Allix and Wavemaker executed a waiver of the second and third tranches of the Deferred Purchase Consideration. The Sellers also waived their call option on the shares.

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

Summary

PhP Millions	Years ended December 31					Percentage Change			
	2018	2017	2016	2015	2014	2018vs2017	2017vs2016	2016vs2015	2015vs2014
Revenues	1,242.19	2,103.57	1,947.14	898.37	378.32	-41%	8%	117%	137%
Gross Profit	109.59	649.15	803.43	513.87	264.45	-83%	-19%	56%	94%
Income (Loss) before Income Tax	(667.13)	122.04	379.10	331.10	239.14	-647%	-68%	14%	38%
Net Income (Loss)	(811.64)	102.57	264.84	229.62	190.72	-891%	-61%	15%	20%

Revenues									
Mobile Consumer Services	270.85	1,336.54	1,239.92	576.06	309.37	-80%	8%	115%	86%
Enterprise Services	875.61	667.60	653.14	243.45	68.95	31%	2%	168%	253%
Other Services	95.72	99.44	54.07	78.87	-	-4%	84%	-31%	n.a.

Notes

1. Compounded annual average growth rate (CAAGR) is $((\text{final value}/\text{initial value})^{(1/\text{number of years}-1)})-1$.
2. CAAGR for total revenues from 2014-2017 is 77%.
3. CAAGR for mobile consumer revenue from 2014-2017 is 63%; comprised an average 65% of total revenues (2014-2017).
4. CAAGR for enterprise revenue from 2014-2017 is 113%; comprised an average 31% of total revenues (2014-2017).

The Group's revenues had a compounded annual average growth rate (CAAGR) of 77% from 2014 to 2017; from ₱378.32 million to ₱2,103.57 million; primarily anchored on the mobile consumer business. The mobile consumer business which comprised an average of 65% of total revenues from period 2014-2017 grew by 63% on a CAAGR basis. On the other hand, the enterprise segment which made up 31% of total revenues over the period, increased by 113%.

However, there was a slowdown in the Group's growth in 2017 (only 8% from previous year) primarily due to the drop in revenues of Art of Click. In 2018, revenues further dropped by 41% to ₱1,242.19 million, as the Group faced 2 major business challenges in its mobile consumer segment.

For the mobile consumer business, the overall situation of the digital advertising industry that affected Art of Click (AoC) persisted in 2018. Likewise, since the first quarter of 2018, technical and business policy changes implemented by Globe Telecom affected its Value Added Services (VAS) business. In total, the Mobile Consumer Services segment fell 80% in 2018 to ₱270.85 million from ₱1,336.54 million in 2017. On the other hand, the Group's revenues from the Enterprise Service segment, grew by 31%, from ₱667.60 million in 2017 to ₱875.61 in 2018. The increase in revenues was mainly from talent solutions, custom software development, software products, and increasing business from existing clients. Lastly, the Other Services segment revenues minimally decreased by 4% in 2018 vis-à-vis 2017.

In 2018, the Group netted a loss of ₱811.64 million due to the following: 1) drastic drop in revenues which led to operating losses 2) provision for impairment loss related to the certain receivable of Art of Click (AoC) amounting to ₱127.07 million 3) impairment of goodwill recorded for AoC amounting to ₱144.86 million and 4) provision for impairment of other receivables (as a result of the new accounting standard PFRS 9), which amounted to ₱39.01 million. The provisions for impairment of receivables can be recovered when they are collected; while the impairment of goodwill is recoverable, when the financial performance of AoC improves, moving forward.

Key Financial Data In PHP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	270.86	22%	1,336.54	64%	(1,065.68)	-80%
Enterprise services	875.61	70%	667.60	32%	208.01	31%
Other services	95.72	8%	99.44	5%	(3.72)	-4%
<i>Total Revenues</i>	1,242.19	100%	2,103.57	100%	(861.38)	-41%
Cost of Services	1,062.87	86%	1,373.41	65%	(310.54)	-23%
Cost of Goods Sold	69.73	5%	81.01	4%	(11.28)	-14%
Gross Profit	109.59	9%	649.15	31%	(539.56)	-83%
General and Administrative Expenses	701.04	57%	572.62	27%	128.42	22%
Equity in Net Loss of Associates	52.99	4%	36.72	2%	16.27	44%
Other charges (income) - net	22.69	2%	(82.23)	-4%	104.92	-128%
Income (Loss) Before Income Tax	(667.13)	-54%	122.04	6%	(789.17)	-647%
Provision for (Benefit from) Income Tax	144.51	11%	19.47	1%	125.04	642%
Net Income (Loss)	(811.64)	-65%	102.57	5%	(914.21)	-891%
Other Comprehensive Income	8.27	0%	21.15	1%	(12.88)	-61%
Total Comprehensive Income (Loss)	(803.37)	-65%	123.72	6%	(927.09)	-749%

	December 31, 2018 Amount	December 31, 2017 Amount	Amount Change	% Increase (Decrease)
Total Assets	4,966.57	5,810.18	(843.61)	-15%
Total Liabilities	1,499.98	2,454.68	(954.70)	-39%
Total Equity	3,466.58	3,355.50	111.08	3%

Financial Summary

Total revenues decreased by ₱861.38 million or 41% for 2018, from ₱2,103.57 million in 2017 to ₱1,242.19 million in 2018. Group revenues were mainly driven by enterprise services, comprising 70% of the total revenues. The net income of the Group for 2018, decreased by 891% (from ₱102.57 million in 2017 to a net loss of ₱811.64 million in 2018). Total comprehensive income over the same period decreased by 749% from ₱123.72 million in 2017 to a total comprehensive loss of ₱803.37 million as at 2018.

The blended cost of services (aggregating the subsidiaries' costs) decreased by 23% from ₱1,373.41 million for 2017 to ₱1,062.87 million for 2018. The outsourced services cost of AoC was the largest component of the decrease, which resulted from the drop in its revenues. Segment fee/network costs, web hosting, and royalties also decreased due to lower VAS revenues. Cost of goods sold attributable to other services was ₱69.73 million for 2018 compared to ₱81.01 million in 2017, a decrease of 14% or ₱11.28 million.

Gross profit margins on total revenues, for 2018 was at 9%, a decrease from 2017's margin of 31%. Gross profit decreased by 83% from ₱649.15 million for 2017 to ₱109.59 million for 2018.

General and administrative expenses of the Group increased by 22%, from ₱572.62 million for 2017 to ₱701.04 million for the same period in 2018. The increase was mainly due to salaries and wages, rent and outsourced services, which were partially offset by major decreases in taxes and licenses, professional fees, transportation and travel, advertising, marketing and promotions, and seminars/trainings, as part of cost cutting measures. Note that Yondu accounts for 90% of the increase in salaries and wages, a result of the continuing growth of its enterprise business. Also included in these expenses are the provisions for the impairment of receivables and goodwill, totaling ₱310.94 million. These are recoverable at the period the receivables are collected or the financial performance of the company improves potentially reversing in whole or partial, the impairment recorded.

The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱52.99 million for 2018.

Despite incurring a loss before income tax of ₱667.13 million, the Group still recognized a provision for income tax for the year ended December 31, 2018 amounting to ₱144.51 million. The increase in provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the year.

Overall, the net income for the Group decreased from ₱102.57 million for 2017 to a net loss of ₱811.64 million in 2018.

Consolidated total assets as of December 31, 2018 amounted to ₱4,966.57 million, a decrease of 15% from ₱5,810.18 million as of December 31, 2017. Consolidated total liabilities decreased by 39% from ₱2,454.68 million as of December 31, 2017 to ₱1,499.98 million in December 31, 2018, due mainly to the settlement of payable to former shareholders of a subsidiary and the expiration of liability for written put option. Consolidated total equity increased by 3% over the same period, from ₱3,355.50 million to ₱3,466.58 million. This was a result of the new issuance of common shares and derecognition of equity reserve resulting from expiration of the written put option; coupled with the losses in 2018.

Segment Financial Performance

As of December 31, 2018 In PHP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	314.24	909.85	7.14	(77.89)	1,153.34
Revenue from sale of goods	-	-	88.85	-	88.85
Total Service Revenues	314.24	909.85	95.99	(77.89)	1,242.19
Operating expenses	1,126.78	940.47	167.13	(400.73)	1,833.65
Equity in net loss of associates	-	-	-	52.99	52.99
Other charges (income) - net	(16.59)	3.27	8.37	27.63	22.69
Total Expenses	1,110.19	943.74	175.50	(320.11)	1,909.32
Operating Loss	(795.95)	(33.89)	(79.51)	242.22	(667.13)
Provision from income tax	(5.32)	(20.77)	(25.14)	(93.28)	(144.51)
Net Loss	(801.27)	(54.66)	(104.65)	148.94	(811.64)

As of December 31, 2018, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱314.24 million, ₱795.95 million and ₱801.27 million, respectively. Enterprise services had an operating loss of ₱33.89 million and net loss of ₱54.66 million from revenues of ₱909.85 million. For 2018, although Yondu's enterprise business was profitable, this was not enough to offset the losses of the subsidiaries under this segment. The other services segment has yet to yield a positive contribution to the Group.

Profitability

For the twelve-month period ended December 31, 2018 compared with the twelve-month period ended December 31, 2017

Revenues

The consolidated service revenues of the Group for the period ended December 31, 2018 amounted to ₱1,242.19 million, a decrease of 41% from ₱2,103.58 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 Inc. • 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"> • Xeleb Technologies Inc. • 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

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	875.61	70%	667.60	32%	208.01	31%
Mobile consumer services	270.86	22%	1,336.54	64%	(1,065.68)	-80%
Other services	95.72	8%	99.44	5%	(3.72)	-4%
<i>Total Revenues</i>	1,242.19	100%	2,103.57	100%	(861.38)	-41%

Revenues from enterprise services (which accounts for 70% of total revenues) increased by 31% in 2018, to ₱875.61 million from ₱667.60 million in 2017. On the other hand, revenues from the mobile consumer services segment for 2018 amounted to ₱270.86 million, a decrease of 80% from the previous year’s same period level of ₱1,336.54 million. This segment accounts for 22% of the total revenues. Other services booked revenues of ₱95.72 million in 2018, lower by 4% from the previous level at ₱99.44 million over the same period last year.

Expenses

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	1,062.87	58%	1,373.41	68%	(310.54)	-23%
Cost of Goods Sold	69.73	4%	81.01	5%	(11.28)	-14%
General and Administrative Expenses	701.04	38%	572.62	28%	128.42	22%
<i>Total Expenses</i>	1,833.64	100%	2,027.04	100%	(193.40)	-10%

The Group's consolidated expenses in 2018 amounted to ₱1,833.64 million, a 10% decrease from previous year's ₱2,027.04 million. For 2018, cost of services accounted for the bulk of expenses, totaling ₱1,062.87 million or 58% of the Group's consolidated expenses. For 2017, cost of services amounted to ₱1,373.41 million or 68% of overall expenses.

Cost of Services

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	724.50	68%	639.94	47%	84.56	13%
Outsourced services	143.93	14%	463.38	34%	(319.45)	-69%
Segment fee and network costs	43.26	4%	71.15	5%	(27.89)	-39%
Others	151.19	14%	198.95	14%	(47.76)	-24%
<i>Total Expenses</i>	1,062.87	100%	1,373.41	100%	(310.54)	-23%

Cost of services totaling ₱1,062.87 million in 2018 (compared to ₱1,373.41 million for 2017 or a 23% decrease), was mainly comprised of (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Segment fee and network costs, which accounted for 68%, 14%, and 4%, respectively. Of the total cost of services for the period, 59% is attributed to Yondu. The decrease in total cost of services was mainly brought about by the decrease in the outsourced services cost of AoC, which is a consequence of the drop in its digital advertising revenues. Segment fee/network costs, web hosting, and royalties also decreased due to lower VAS revenues.

Cost of Goods Sold

For the period ended December 31, 2018, cost of goods sold took up 4% of the Group's consolidated expenses, amounting to ₱69.73 million. This figure was a decrease of 14% from its level of ₱81.01 million in December 31, 2017. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold. This led to the improved gross profit margins for Storm.

General and Administrative Expenses

In PhP Millions	For the 12 months ended December 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Provision for impairment losses	310.94	44%	106.54	19%	204.40	192%
Salaries, wages and employee benefits	151.96	22%	163.02	28%	(11.06)	-7%
Rent	42.09	6%	33.17	6%	8.92	27%
Others	196.05	28%	269.89	47%	(73.84)	-27%
<i>Total Expenses</i>	701.04	100%	572.62	100%	128.42	22%

General and administrative expenses relating to the Group's operations, for 2018 amounted to ₱701.04 million, higher by 22% compared to previous year's ₱572.62 million. Provision for impairment losses in 2018 amounted to ₱310.94 million or 44% of total general and administrative expenses or GAEX. Salaries, wages, and employee benefits was ₱151.96 million or 22% of the total GAEX. The same expenses amounted to ₱163.02 million in 2017.

Overall, the 22% increase in total GAEX was mainly due to the provision for impairment losses on receivables and goodwill, totaling ₱310.94 million. Details are the following: 1) provision for impairment loss related to certain receivable of Art of Click (AoC) amounting to ₱127.07 million 2) impairment of goodwill recorded for AoC amounting to ₱144.86 million and 3) provision for impairment of other receivables (as a result of the new accounting standard PFRS 9), which amounted to ₱39.01 million. These are recoverable at the period the receivables are collected or the financial performance of the company improves potentially reversing in whole or partial, the impairment recorded.

There were also decreases in salaries and wages, taxes and licenses, professional fees, transportation and travel, advertising, marketing and promotions, and seminars and trainings. The decreases in salaries and wages across some companies in the Group, is a result of cost cutting initiatives in response to the drop in revenues of certain business segments.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the period ended December 31, 2018, amounted to ₱52.99 million.

Other Income – net

For the year 2018, the Group recognized other charges amounting to ₱22.69 million; with interest expenses of ₱31.11 million, offset by interest income and gain on foreign exchange transactions.

Income (Loss) before Income Tax

The Group's loss before income taxes for period ended December 31, 2018 was ₱667.13 million. The loss before income taxes for the Group declined by 647% from December 31, 2017, which posted a figure of ₱122.04 million.

Provision for Income Tax

Despite incurring a loss before income tax, the Group still recognized a provision for income tax for the year ended December 31, 2018 amounting to ₱144.51 million, 642% higher compared to the same period in 2017 where provision for income tax amounted to ₱19.47 million. The increase in provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the year. 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 year ended December 31, 2018, changes in unrecognized DTA amounted to ₱322.77 million.

Net Income

The Group posted a consolidated net loss of ₱811.64 million for the period ended December 31, 2018, a decrease of 891% from the previous year's same period at ₱102.57 million.

Total Comprehensive Income

As of December 31, 2017, the Group's total comprehensive loss amounted to ₱803.37 million, a decrease of 749% compared to ₱123.72 million as at December 31, 2017.

Financial Position

As of December 31, 2018 compared to December 31, 2017

Assets

Cash

The Group's consolidated cash amounted to ₱177.40 million for the twelve-month period ended December 31, 2018, a net decrease of 18% or ₱37.86 million from consolidated cash of ₱215.25 million as at December 31, 2017.

Accounts Receivable

The Group's consolidated accounts receivable amounted to ₱530.64 million and ₱845.67 million as at December 31, 2018 and December 31, 2017, respectively, representing a decrease of ₱315.03 million or 37%. Accounts receivable in 2018 nets out the allowance for impairment amounting to ₱265.02 million.

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. As of December 31, 2018, contract assets amounted to ₱9.75 million.

Other Current Assets

The Group's consolidated other current assets totaled ₱57.90 million, a decrease of ₱0.04 million from its previous level on December 31, 2017 at ₱57.94 million. Prepaid expenses and deferred input VAT comprised majority of other current assets.

Financial Assets at FVOCI

This account pertains to quoted and unquoted equity investments previously classified as AFS financial assets but are now classified and measured as financial assets at FVOCI as a result of adoption of PFRS 9.

As of December 31, 2018, carrying value and net unrealized loss on financial assets at FVOCI recognized in the consolidated statement of financial position amounted to ₱0.48 million and ₱44.22 million, respectively.

Available for sale financial asset

Upon adoption of PFRS 9, the quoted and unquoted equity investments were reclassified as financial assets at FVOCI while the unquoted debt investments were reclassified as financial assets at FVPL in the consolidated statements of financial position. As of December 31, 2018, the resulting available for sale financial asset is nil vis-à-vis ₱159.05 million in 2017.

Investment in Associates

As of December 31, 2018, the Group's consolidated investment in associates amounted to ₱456.00 million, a 12% decrease from its figure of ₱515.66 million during December 31, 2017. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱24.34 million), MatchMe (₱43.71 million), SDI (₱10.64 million), and Micro Benefits Limited (₱377.31 million).

Property and Equipment

The Group's consolidated property and equipment was ₱59.20 million in December 31, 2018 vis-à-vis ₱76.15 million in December 31, 2017, or a decrease of 22%. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures. The decrease was due to retirement and disposal of certain equipment.

Intangible Assets

Intangible assets of ₱3,612.92 million as at December 31, 2018 were recognized in relation to the Group's acquisitions and investments. Movements in this account pertains to additions, disposal, revaluation surplus amounting to ₱16.62 million; amortization (net of disposal) of ₱37.07 million; and impairment of goodwill amounting to ₱144.86 million. These resulted to a net 4% decrease amounting to ₱160.96 million vis-à-vis the December 31, 2017 figure at ₱3,773.88 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As at December 31, 2018, goodwill is at ₱2,399.76 million. This nets out an impairment of ₱144.86 million, pertinent to AoC.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2018, customer relationship is valued at ₱1,077.81 million.
- 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 December 31, 2018, developed software net book value is at ₱121.08 million. Amortization of developed software for the twelve-month period ended December 31, 2017 amounted to ₱34.59 million.
- Cryptocurrencies pertain to units of Bitcoin held by the Group as at December 31, 2018 valued at

₱5.48 million

- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2018, leasehold rights net book value is at ₱8.79 million. Amortization of leasehold rights for the twelve-month period ended December 31, 2018 amounted to ₱2.48 million.

Pension Asset

The Group's recorded pension asset as of December 31, 2018 and December 31, 2017 was at ₱1.41 million and ₱0.31 million, respectively, an increase of 354%.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱14.19 million as at December 31, 2018, lower by 88% or ₱101.34 million vis-à-vis its December 31, 2017 level at ₱115.53 million. The significant decrease in deferred tax asset was brought about by the increase in unrecognized deferred tax asset as aforementioned.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱46.37 million as of December 31, 2018. This figure is 9% lower than the value posted as of December 31, 2017 at ₱50.74 million. These are primarily rental deposits amounting to ₱19.95 million.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱654.52 million as at December 31, 2018 was a 33% or ₱161.41 million increase from its December 31, 2017 figure of ₱493.11 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱179.20 million, payable to related parties at ₱104.03 million (₱102.42 million from Xurpas, as advances from stockholders), deferred output VAT at ₱42.67 million and accrued expenses at ₱42.66 million.

Loans Payable

The Group recorded ₱358.74 million in current loans in December 31, 2018 and ₱377.42 million in December 31, 2017. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at December 31, 2018 amounted to ₱2.19 million, a decrease of 78% from the December 31, 2017 figure of ₱10.08 million.

Contract Liabilities

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.

As at December 31, 2018, contract liabilities amounted to ₱44.50 million.

Other Current Liabilities

The Group's other current liabilities amounted to ₱63.75 million in December 31, 2018 compared to ₱77.17 million in 2017, a decrease of 17%.

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 is ₱0.02 million in December 31, 2018 and ₱0.61 million December 31, 2017.

Deferred Tax Liability

As of December 31, 2018, the deferred tax liability (net) was at ₱352.73 million, a decrease of 1% or ₱3.13 million from ₱355.86 million as of December 31, 2017.

Pension Liability

The accrued pension of the Group is at ₱23.52 million in December 31, 2018 compared to ₱31.30 million in December 31, 2017 or a decrease of 25%.

Equity

Total Equity

The Group's total equity as of December 31, 2018 was at ₱3,466.58 million, a 3% increase from its December 31, 2017 level at ₱3,355.50 million. The net decrease in total equity was a result of decrease in equity reserve from ₱1,250.72 million as of December 31, 2017 to ₱402.22 million as of December 31, 2018. Retained earnings decreased from ₱322.73 million as of December 31, 2017 to negative ₱556.37 million as at December 31, 2018 because of the net losses for 2018. This also included the reclassification for Available for Financial Assets as a result of adopting PFRS 9 which resulted into a net unrealized loss on financial assets at FVOCI of ₱44.22 million; which is recorded as a contra-equity account.

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 the Parent Company and Seer Technologies Inc. which are short

term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

In PhP Millions	For the 12 months ended December 31	
	2018	2017
	Amount	Amount
Net cash provided by (used in) Operating Activities	(186.02)	248.52
Net cash provided by (used in) Investing Activities	(102.43)	(169.89)
Net cash provided by (used in) Financing Activities	236.19	(274.97)
Effect of foreign currency exchange changes in cash	14.40	(16.92)
Net increase (decrease) in cash	(37.86)	(213.26)
Cash at beginning of period	215.25	428.52
Cash at end of period	177.40	215.25

Cash Flows Provided by Operating Activities

For the first twelve months of 2018, operating loss of ₱385.95 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱104.91 million net cash used in operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱186.02 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for subsidiaries and associates for the twelve months of 2018 was ₱102.43 million compared to ₱169.89 million used in the same period of 2017. The net cash used in investing activities was mainly attributable to the proceeds of sale from cryptocurrencies and the balance of the earn-out payment to Art of Click.

Cash Flows Provided by (Used in) Financing Activities

The Group's consolidated net cash flow provided by financing activities for period ended December 31, 2018 was ₱236.19 million compared to net cash flow used in financing activities for the period ended December 31, 2017 which was ₱274.97 million.

Capital Expenditure

The Group's capital expenditures for the period ended December 31, 2018 and the year ended December 31, 2017 amounted to ₱18.35 million and ₱27.50 million, respectively.

Key Financial Data In PhP Millions	December 31, 2018 Additions	December 31, 2017 Additions
Office Equipment	1.19	3.08
IT Equipment	14.58	18.03
Furniture and Fixtures	0.06	0.95
Leasehold Improvements	2.52	4.33
Leased Asset	-	1.11
	18.35	27.50

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 year ended December 31		
	2018	2017	2016
Liquidity Ratios			
Current Ratio	69%	54%	105%
Quick Ratio	64%	51%	102%
Asset-to-Equity Ratio	183%	231%	219%
Profitability Ratios			
Net Income Margin	-62%	2%	11%
Gross Margin	9%	31%	41%
Operating Margin	-46%	12%	24%
Return on Total Assets	-14%	1%	7%
Return on Equity	-22%	1%	14%
Debt Ratios			
Debt-to-Equity Ratio	0.56x	0.97x	0.91x
Interest Coverage Ratio	-20.45x	2.81x	11.84x

Current Ratios

Current Ratio and Quick Ratios in the twelve-month period at December 31, 2018 were 69% and 64%, respectively, an increase from their respective 54% and 51% figures during the full year of 2017. The increase in both ratios was primarily from the decrease in current liabilities; due to the reversal of the liability for written put option and the settlement of the payable to a former shareholder of a subsidiary, even as current assets also decreased over the period.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 231% in December 31, 2017 to 183% in December 31, 2018 resulted from the decrease in total assets vis-à-vis equity, which increased over the same period.

Profitability Ratios

Profitability margins decreased from December 31, 2017, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (9%), Net Income Margin (-62%), Operating Margin (-46%), Return on Total Assets (-14%) and Return on Equity (-22%) was a result of the year's net losses.

Debt Ratios

Debt to Equity ratio in December 31, 2018 was at 0.56x compared to 0.97x as at December 31, 2017. The decrease in the gearing ratio was attributed to the lower liability in December 31, 2018 compared to the previous year. Interest coverage ratio in December 31, 2017 was at -20.45x compared to 2.81x the previous year. The decrease in this ratio is because of the big drop in earnings before interest and tax expense and higher interest expense in 2018 compared to 2017.

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	$\frac{\text{Net income attributable to Parent Company}}{\text{Service income} + \text{Sale of goods}}$
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2. Gross margin	$\frac{(\text{Service income} + \text{Sale of goods}) - (\text{Cost of services} + \text{Cost of goods sold})}{\text{Service income} + \text{Sale of goods}}$
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3. Operating margin	$\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Service income} + \text{Sale of goods}}$
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4. Return on total assets	$\frac{\text{Net income attributable to Parent Company}}{\text{Average total assets}}$
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5. Return on total equity	$\frac{\text{Net income attributable to Parent Company}}{\text{Average total equity attributable to the Parent Company}}$
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Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines 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 known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
 - vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
 - vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are confined to its mobile consumer and other services segment.

For the year ended December 31, 2017 compared with the year ended December 31, 2016

Summary

PhP Millions	Years Ended December 31				Percentage Change		
	2017	2016	2015	2014	2017 vs 2016	2016 vs 2015	2015 vs 2014
Revenues	2,103.57	1,947.14	898.37	378.32	8%	117%	137%
Gross Profit	649.15	803.43	513.87	264.45	-19%	56%	94%
Income before Income Tax	122.04	379.10	331.10	239.14	-68%	14%	38%
Net Income	102.57	264.84	229.62	190.72	-61%	15%	20%

Revenues							
Mobile Consumer Services	1,336.54	1,239.92	576.06	309.37	8%	115%	86%
Enterprise Services	667.60	653.14	243.45	68.95	2%	168%	253%
Other Services	99.44	54.07	78.87	-	84%	-31%	n.a.

The Company had its Initial Public Offering of its shares on December 2014 and embarked on its expansion in the years that followed. The Group's total revenues increased from ₱378.32 million in 2014 to ₱898.37 million in 2015, or a 137% increase. The revenue growth was sustained in 2016 at 117% (from ₱898.37 million in 2015 to ₱1,947.14 million in 2016), but tapered off in 2017 at 8%, increasing to ₱2,103.57 million. The profitability of the group did not grow at the same rate as the revenues because of the planned expansion expenses in line with revenue growth; as shown in the 2014 to 2016 lower rates of increase of gross profit, Income before Income Tax, and Net Income. In 2017, the Group experienced a combination of drag in earnings and significant one-time expenses related to its acquisition of Art of Click, along with the continuous development of products, services, and platforms.

There has been a slowdown in the Company's growth in 2017 primarily due to the drop in revenues of Art of Click. A number of Art of Click's clients were venture-capital funded firms that did not have a regular full-year advertising campaign. The Company is implementing a recovery plan specifically to improve the client mix of Art of Click. The full effect of the consolidation of Art of Click's revenues, operational expenses, and net income was realized in the full twelve months of 2017. In 2017, there were revisions in the Share Purchase Agreement between Xurpas and the former shareholders of Art of Click, with regard to the payment structure and other related changes for the acquisition of shares of Art of Click. This resulted in non-recurring expenses amounting to ₱48.07 million. While the other revisions resulted in a net gain, the Group also recorded a one-time provision for impairment loss related to the certain receivable of Art of Click amounting to ₱121.69 million. Even as management is continuing discussions with the client for collection, it was deemed prudent to provide for such receivable, as it has passed Art of Click's standard collection period. Assuming the provision was not done, the net income of the Group would have been ₱203.58 million.

In October 2017, the valuation for the acquisition of 100% stake in Art of Click Pte. Ltd. ("AOC") was completed and the acquisition date fair value of the total net assets acquired was determined. The 2016 comparative information was restated to reflect the adjustments to the following accounts in the Statement of Financial Position (incremental assets of ₱566.50 million, incremental liability of ₱606.56 million and reduction in retained earnings of ₱40.06 million) and Statement of Xurpas Inc.

Comprehensive Income (Cost of Services and other charges amounting to ₱47.81 million and reduction in provision for income tax of ₱7.76 million).

Other significant activities within the Group include development of new mobile consumer products and platforms and completion of employee certifications and skills trainings. These activities incurred incremental costs in the cost of services and general and administrative expenses of the Group, particularly for salaries, wages, and employee benefits, outsourced services, seminars and trainings, and marketing and promotions expenses.

In 2017, the Group has successfully launched new products and services under Mobile Consumer Services, specifically mobile casual games. Xurpas and its subsidiaries has also developed mobile platforms that were soft launched in the first twelve months of 2017. These are: the W00T AppStore and the Storm Squares employee communication platform. In the Enterprise segment, recruitment process outsourcing was introduced in the revenue stream. For Storm, new corporate clients have added to the total employee user base enrolled for Storm FlexBen and Storm Ace (formerly, Storm Kudos), the employee incentives platform.

Key Financial Data In PhP Millions	For the 12 months ended December 31					
	2017		2016 (As restated)		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,336.54	64%	1,239.92	64%	96.61	8%
Enterprise services	667.60	32%	653.14	34%	14.45	2%
Other services	99.44	5%	54.07	3%	45.36	84%
Total Revenues	2,103.57	100%	1,947.14	100%	156.43	8%
Cost of Services	1,373.41	65%	1,101.90	57%	271.52	25%
Cost of Goods Sold	81.01	4%	41.82	2%	39.19	94%
Gross Profit	649.15	31%	803.43	41%	(154.28)	-19%
General and Administrative Expenses	572.62	27%	354.73	18%	217.89	61%
Equity in Net Loss of Associate	36.72	2%	33.90	2%	2.82	8%
Other charges (income) - net	(82.23)	-4%	35.69	2%	(117.92)	-330%
Income Before Income Tax	122.04	6%	379.10	19%	(257.06)	-68%
Provision for Income Tax	19.47	1%	114.27	6%	(94.80)	-83%
Net Income	102.57	5%	264.84	14%	(162.27)	-61%
Other Comprehensive Income (Loss)	21.15	1%	14.59	1%	6.56	45%
Total Comprehensive Income	123.72	6%	279.42	14%	(155.70)	-56%

	Dec. 31, 2017 Amount	Dec. 31, 2016 Amount	Amount Change	% Increase
Total Assets	5,810.18	6,476.43	(666.25)	-10%
Total Liabilities	2,454.68	2,686.93	(232.25)	-9%
Total Equity	3,355.50	3,789.50	(434.00)	-11%

Financial Summary

Total revenues increased by ₱156.43 million or 8%, from ₱1, 947.14 million in 2016 to ₱2,103.57 million in 2017. The net income of the Group for the twelve-month period ended December 31, 2017, decreased by 61% (from ₱264.84 million (as restated) in the year ended 2016 to ₱102.57 million in 2017). Total comprehensive income over the same period decreased by 56% from ₱282.32 million as

at December 31, 2016 to ₱123.72 million as at December 31, 2017. Group revenues were still mainly driven by mobile consumer services, comprising 64% of the total revenues.

The blended cost of services (aggregating the subsidiaries' costs) increased by 25% from ₱1,101.90 million for the year ended 2016 to ₱1,373.41 million for the comparable period in 2017. Cost of goods sold attributable to other services was ₱81.01 million for the year ended 2017 compared to ₱41.82 million in 2016, an increase of 94% or ₱39.19 million. Gross profit margins on total revenues, for the period ended December 31, 2017 was at 31%, a decrease from the same period last year at 41%. Gross profit decreased by 19% from ₱803.43 million for the full year of 2016 to ₱649.15 million for the same period in 2017.

General and administrative expenses increased by 61%, from ₱354.73 million in 2016 to ₱572.62 million for the same period in 2017. Overall, the increase was mainly due to the costs related to the Group's expansion: (i) absorption of operating expenses of acquired subsidiaries made in 2015 and 2016, (ii) increase in salaries and wages due to organizational build-up of the parent company and acquired subsidiaries, and (iii) investment and acquisition-related costs and legal fees, the latter being non-recurring, and (iv) one-time impairment losses. Included in the general and administrative expenses were increase in non-cash expenses such as depreciation and amortization related to capitalization costs, as well as non-cash interest expenses related to the recognition of liability for a written put option. The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱36.72 million for the period ended December 31, 2017. Provision for taxes during 2017 was ₱19.47 million or 83% lower than the same period in 2016 at ₱114.27 million. Overall, the net income for the Group decreased from ₱264.84 million (as restated) in 2016 to ₱102.57 million over the same period in 2017; a decrease of 61%.

Consolidated total assets as of December 31, 2017 amounted to ₱5,810.18 million, a decrease of 10% from ₱6,476.43 million as of December 31, 2016. The net decrease of ₱666.25 million in total assets was mainly brought by the ₱335.92 million decrease in financial assets at FVPL. Consolidated total liabilities decreased by 9% from ₱2,686.93 million as of December 31, 2016 to ₱2,454.68 million in December 31, 2017, due mainly to the decrease in contingent liability. Consolidated total equity decreased by 11% over the same period, from ₱3,789.50 million to ₱3,355.50 million. This was a result of the increase in equity reserve.

Segment Financial Performance

As of December 31, 2017 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	1,599.60	721.36	5.67	(317.08)	2,009.55
Revenue from sale of goods	-	-	94.02	-	94.02
Total Service Revenues	1,599.60	721.36	99.69	(317.08)	2,103.57
Operating expenses	1,424.34	721.94	169.43	(288.68)	2,027.03
Equity in net loss of associates	-	-	-	36.72	36.72
Other charges (income) - net	(207.18)	(5.09)	1.31	128.73	(82.23)
Total Expenses	1,217.17	716.85	170.74	(123.23)	1,981.52
Operating Loss	382.43	4.51	(71.05)	(193.85)	122.05
Benefit from (provision for) income tax	64.63	27.49	(7.22)	(65.43)	19.47
Net Loss	317.80	(22.98)	(63.82)	(128.42)	102.58

As of December 31, 2017, mobile consumer services' revenues, operating profit and net income prior to eliminations were ₱1,599.60 million, ₱382.43 million and ₱317.80 million, respectively. These translated to 24% operating profit margin and 20% net income margin. Enterprise services had an operating profit of ₱4.51 million and net loss of ₱22.98 million (net loss margin of 3%) from revenues of ₱721.36 million. For 2017, although Yondu's enterprise business was profitable, this was not enough to offset the losses of the subsidiaries under this segment. The other services segment has yet to yield a positive contribution to the Group.

Profitability

For the twelve-month period ended December 31, 2017 compared with the twelve-month period ended December 31, 2016

Revenues

The consolidated service revenues of the Group for the period ended December 31, 2017 amounted to ₱2,103.57 million, an increase of 8% from ₱1,947.14 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 Inc. • 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"> • Xeleb Technologies Inc. • 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

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,336.54	64%	1,239.92	64%	96.61	8%
Enterprise services	667.60	32%	653.14	34%	14.45	2%
Other services	99.44	5%	54.07	3%	45.36	84%
<i>Total Revenues</i>	2,103.57	100%	1,947.14	100%	156.43	8%

Revenues from the mobile consumer services segment for the twelve-month period ended December 31, 2017 amounted to ₱1,336.54 million, an increase of 8% from the previous year's same period level of ₱1,239.92 million. The increase was attributed to the growth from the mobile games business and the accretive value of the acquisition of Art of Click in 2017. This segment accounts for 64% of the total revenues. On the other hand, revenues from enterprise services (which accounts for 32% of total revenues) increased by 2% in December 31, 2017, to ₱667.60 million from ₱653.14 million in December 31, 2016. Other services booked revenues of ₱99.44 million in the first twelve months of 2017, higher by 84% from the previous level at ₱54.07 million over the same period last year. The increase in the sales of Storm was attributed to organic growth in its client base and active platform users.

Expenses

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	1,373.41	68%	1,101.90	74%	271.51	25%
Cost of Goods Sold	81.01	4%	41.82	3%	39.19	94%
General and Administrative Expenses	572.62	28%	354.73	24%	217.89	61%
<i>Total Expenses</i>	<i>2,027.04</i>	<i>100%</i>	<i>1,498.45</i>	<i>100%</i>	<i>528.58</i>	<i>35%</i>

As of the full year of 2016, Xurpas had as subsidiaries: Xeleb Technologies (formerly Fluxion), Storm Flex, Xeleb, Seer, and Yondu. In contrast, the full year of 2017 now also includes Art of Click. The Group's consolidated expenses during the period ended December 31, 2017 amounted to ₱2,027.04 million, a 35% increase from the same period of the previous year at ₱1,498.44 million. For the full year of 2017, cost of services accounted for the bulk of expenses, totaling ₱1,373.41 million or 68% of the Group's consolidated expenses. For the same period in 2016, cost of services amounted to ₱1,101.90 million or 74% of overall expenses of ₱1,498.44 million.

Cost of Services

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	639.94	47%	486.90	44%	153.04	31%
Outsourced services	463.38	34%	368.53	33%	94.85	26%
Royalty fees	81.31	6%	48.44	4%	32.87	68%
Others	188.78	14%	198.03	18%	(9.25)	-5%
<i>Total Expenses</i>	<i>1,373.41</i>	<i>100%</i>	<i>1,101.91</i>	<i>100%</i>	<i>271.51</i>	<i>25%</i>

Cost of services totaling ₱1,373.41 million as of December 31, 2017, was mainly driven by expenses relating to (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Royalty fees, which accounted for 47%, 34%, and 6%, respectively. These costs were directly borne from rendering mobile consumer services, enterprise services, and other services to the Group's clients for the twelve months of 2017. Of the total cost of services for the period, more than half is attributed to Art of Click and Yondu.

Cost of Goods Sold

For the period ended December 31, 2017, cost of goods sold took up 4% of the Group's consolidated expenses, amounting to ₱81.01 million. This figure was an increase of 94% from its level at ₱41.82 million in December 31, 2016. The increase in cost of goods sold was directly attributable to the increase in revenues of Storm Technologies. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold.

General and Administrative Expenses

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	163.02	28%	126.49	36%	36.53	29%
Provision for impairment losses	106.54	19%	0.39	0%	106.15	27218%
Professional fees	48.03	8%	43.31	12%	4.72	11%
Taxes and licenses	43.66	8%	18.65	5%	25.01	134%
Others	211.37	37%	165.89	47%	45.48	27%
<i>Total Expenses</i>	572.62	100%	354.72	100%	217.90	61%

General and administrative expenses relating to the Group's operations, for twelve months of 2017 amounted to ₱572.62 million, higher by 61% compared to previous year's same period level of ₱354.73 million. The increase in the GAEX was primarily brought about by the consolidation of operational expenses from the latest acquired subsidiary, Art of Click, which contributed 26% of the total. Salaries, wages, and employee benefits was ₱163.02 million or 28% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱126.49 million for the same period in 2016. The next biggest cost component in December 31, 2017 was Provision for impairment losses amounting to ₱106.54 million or 19% of total GAEX. This refers to the provision made for one of Art of Click's clients, net of amount that it actually was able to collect from its other clients. Likewise, in 2017, due to the change in the payment structure to the main seller of the shares of Art of Click to Xurpas, the Parent Company incurred ₱48.07 million for one-off expenses pertaining to donors/capital gains tax, professional fees, bank charges and foreign exchange loss.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the period ended December 31, 2017, amounted to ₱36.72 million. These companies are still in their testing phase or are in the process of ramping up or commercializing their operations. Despite the aggregate net loss of associates for 2017, the Group is now seeing profits from the associates companies - PT Sembilan Digital Investama (SDI), and MatchMe. Altitude Games and MicroBenefits are the associates that posted a net loss for 2017. Altitude Games business is expected to pick up, as it closed a partnership with a big US mobile games developer, to co-develop and introduce games to the US market. For MicroBenefits, it had as its main focus in the first half, product and user experience upgrade. This paved the way to landing more clients in 2017. MicroBenefits added eight additional brands, representing more than 100 factories in at least 20 factory family groups. It has expanded out of China to Vietnam, India, Bangladesh, and Guatemala.

Other Income – net

For the year 2017, the Group recognized other income amounting to ₱82.23 million. This account mainly pertains to net gain from income and charges subsequent to the business combination with Art of Click amounting to ₱90.91 million which is composed of the ₱364.01 million gain from waiver of deferred purchase consideration, ₱26.59 million foreign exchange loss, ₱30.92 million accretion of unamortized expense, ₱61.63 million interest expense on payable to former shareholders of AOC and ₱153.96 million loss from additional payments to former shareholder of AOC.

Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA)

In PhP Millions	For the 12 months ended December 31			
	2017	2016	Amount Change	% Increase
Income before tax	122.04	379.10	(257.06)	-68%
Depreciation and amortization	66.98	48.63	18.35	38%
Interest expense	67.54	34.98	32.56	93%
EBITDA	256.56	462.71	(206.15)	-45%

The Group's EBITDA decreased by 45% in December 31, 2017 to ₱256.56 million from ₱462.71 million the same period of the previous year. Depreciation and amortization of property and office equipment and intangible assets amounted to ₱66.98 million as at December 31, 2017 from ₱48.63 million as at December 31, 2016. Interest expense increased by 93% from ₱34.98 million as of December 31, 2016 to ₱67.54 million for the same period in 2017.

Income before Income Tax

The Group's net income before taxes for period ended December 31, 2017 was 6% of total revenues or a figure of ₱122.04 million. The net income before taxes for the Group declined by 68% or ₱257.06 million from the same period ended December 31, 2016, which posted a figure of ₱379.10 million.

Provision for Income Tax

Provision for income tax during the twelve-month period ended December 31, 2017 amounted to ₱19.47 million, compared to the same period in 2016, where provision for income tax was ₱114.27 million; an 83% decrease.

Net Income

The Group posted a consolidated net income of ₱102.57 million for the period ended December 31, 2017, a decrease of 61% from the previous year's same period at ₱264.84 million. Despite the Group's continuing organizational build-up, acquisition, investment-related expenses during this period versus that on December 31, 2016, the revenues generated a net income margin of 5% for the twelve months of 2017. Without the provision for impairment loss, the net income would have been ₱203.58 million.

Total Comprehensive Income

As of December 31, 2017, the Group's total comprehensive income amounted to ₱123.72 million, a decrease of 56% compared to ₱282.32 million as at December 31, 2016.

Financial Position

As of December 31, 2017 compared to December 31, 2016

Assets

Cash

The Group's consolidated cash amounted to ₱215.25 million for the twelve-month period ended December 31, 2017, a net decrease of 50% or ₱213.26 million from consolidated cash of ₱428.52 million as at December 31, 2016.

Financial Assets at Fair Value through Profit or Loss

The total Net Asset Value (NAV) and fair value of the Fund as of December 31, 2017 was nil, compared to ₱335.92 million in December 30, 2016. Part of the funds raised by the Parent Company after the April 29, 2016 overnight top-up placement was placed in the SB Money Market Fund while waiting for the appropriate use of the proceeds. The SB Money Market Fund was invested in a diversified portfolio of primarily short-term fixed income instruments. As at December 31, 2017, the funds were used for partial payment due to Emmanuel Allix for the purchase of Art of Click.

Accounts Receivable

The Group's consolidated accounts receivable amounted to ₱845.67 million and ₱956.90 million as at December 31, 2017 and December 31, 2016, respectively, representing a decrease of ₱111.23 million. In December 31, 2017, trade receivables were valued at ₱933.36 million, whereby Yondu and Art of Click account for ₱518.25 million (56% of the total) and ₱273.87 million (29% of the total), respectively.

Available for Sale Financial Assets

As of December 31, 2017, the Group's available for sale financial assets amounted to ₱159.05 million, which increased by 4% or ₱6.08 million from its previous level on December 31, 2016. These are investments in Pico Candy Pte. Ltd. (₱3.60 million), MatchMe Pte. Ltd. (₱52.50 million), Altitude Games Pte. Ltd. (₱28.86 million), Insights Pte. Ltd. (₱23.48 million), Social Light Inc. (₱6.00 million), Club Punta Fuego (₱0.38 million), and Quick.Ly Inc. (₱44.24 million).

Other Current Assets

The Group's consolidated other current assets totaled ₱57.94 million, an increase of ₱5.31 million or 10% from its previous level on December 31, 2016 at ₱52.63 million. Prepaid expenses and creditable withholding taxes comprised majority of other current assets.

Investment in Associates

As of December 31, 2017, the Group's consolidated investment in associates amounted to ₱515.66 million, a 6% decrease from its figure of ₱549.86 million during December 31, 2016. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱26.33 million), Altitude Games Inc. (₱0.09 million), MatchMe (₱51.67 million), SDI (₱10.51 million), and Micro Benefits Limited (₱427.07 million).

Property and Equipment

The Group's consolidated property and equipment was ₱76.15 million in December 31, 2017 vis-à-vis ₱80.53 million in December 31, 2016, or a decrease of 5%. This was the net result of adding ₱27.50 million worth of said assets and the depreciation expense amounting to ₱31.59 million for the twelve-month period ended December 31, 2017. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures.

Intangible Assets

Intangible assets of ₱3,773.88 million as at December 31, 2017 were recognized in relation to the Group's acquisitions and investments. Movements in this account pertains to additions and amortization amounting to ₱10.57 million and ₱35.38 million, respectively, resulting to a net decrease amounting to ₱24.81 million or 1% of the December 31, 2016 figure at ₱3,798.69 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As at December 31, 2017, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2017, customer relationship is valued at ₱1,077.81 million.
- 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 December 31, 2017, developed software net book value is at

₱140.18 million. Amortization of developed software for the twelve-month period ended December 31, 2017 amounted to ₱32.90 million.

- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2017, leasehold rights net book value is at ₱11.27 million. Amortization of leasehold rights for the twelve-month period ended December 31, 2017 amounted to ₱2.48 million.

Pension Asset

The Group's recorded pension asset as of December 31, 2017 and December 31, 2016 was at ₱0.31 million and ₱2.39 million, respectively, a decrease of ₱2.08 million or 87%.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱115.53 million as at December 31, 2017, higher by 86% or ₱53.25 million vis-à-vis its December 31, 2016 level at ₱62.28 million.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱50.74 million as of December 31, 2017. This figure is 9% lower than the value posted as of December 31, 2016 at ₱55.76 million. These are primarily rental and other deposits amounting to ₱24.85 million and ₱25.89 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱493.11 million as at December 31, 2017 was a 19% or ₱79.38 million increase from its December 31, 2016 figure of ₱413.73 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱218.58 million (₱104.55 million from Art of Click and ₱81.43 million from Yondu), payable to related parties at ₱102.53 million (₱97.15 million from Xurpas, as advances from stockholders), deferred output VAT at ₱62.55 million (₱56.90 million from Yondu), accrued expenses at ₱60.60 million (₱56.99 million from Yondu), taxes payable at ₱29.00 million, and other payables at ₱19.84 million

Loans Payable

The Group recorded ₱377.42 million in current loans in December 31, 2017 and ₱3.00 million in December 31, 2016. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at December 31, 2017 amounted to ₱10.08 million, a decrease of 84% from the December 31, 2016 figure of ₱64.44 million.

Liability for Written Put Option

Based on PAS 32, **Financial Instruments: Presentation**, "...a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to ₱864.71 million, unchanged as of December 31, 2017 and December 31, 2016.

Payable to Former Shareholders of a Subsidiary

The Group recorded ₱244.43 million in Payable to former shareholders of a subsidiary as at December 31, 2017 and ₱314.13 million as at December 31, 2016, a decrease of ₱69.70 million or 22%.

Other Current Liabilities

The Group's other current liabilities amounted to ₱77.17 million in December 31, 2017 compared to ₱127.72 million in 2016, a decrease of 40%.

Loans Payable – non-current portion

The Group recorded nil in non-current loans in December 31, 2017 and ₱14.00 million in December 31, 2016.

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 is ₱0.61 million in December 31, 2017 and ₱1.16 million December 31, 2016.

Payable to Former Shareholders of a Subsidiary – net of current portion

The Group recorded nil and ₱491.29 million in payable to former shareholders of a subsidiary (net of current portion) as of December 31, 2017 and December 31, 2016, respectively.

Deferred Tax Liability

As of December 31, 2017, the deferred tax liability (net) was at ₱355.86 million, a decrease of 2% or ₱7.99 million from ₱363.85 million as of December 31, 2016. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

The accrued pension of the Group is at ₱31.30 million in December 31, 2017 compared to ₱28.91 million in December 31, 2016 or an increase of 8%.

Equity

Total Equity

The Group's total equity as of December 31, 2017 was at ₱3,355.50 million, an 11% decrease from its December 31, 2016 level at ₱3,789.50 million. The net decrease in total equity was a result of increase in equity reserve from ₱892.22 million as of December 31, 2016 to ₱1,250.72 million as of December 31, 2017. Retained earnings decreased by ₱57.08 million or 15% from ₱379.81 million as at December 31, 2016 to ₱322.73 million in December 31, 2017.

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 the Parent Company and Seer Technologies Inc. which are short term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

In PhP	For the 12 months ended December 31	
	2017	2016
	Amount	Amount
Net cash provided by Operating Activities	248,521,283	17,890,169
Net cash used in Investing Activities	(169,890,399)	(887,031,702)
Net cash provided by (used in) Financing Activities	(274,972,523)	1,009,409,733
Effect of foreign currency exchange changes in cash	(16,921,504)	(17,635,549)
Net increase (decrease) in cash	(213,263,143)	122,632,651
Cash at beginning of period	428,517,653	305,885,002
Cash at end of period	215,254,510	428,517,653

Cash Flows Provided by Operating Activities

For the first twelve months of 2017, operating income of ₱137.42 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱387.72 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash provided by operating activities of ₱248.52 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for subsidiaries and associates for the twelve months of 2017 was ₱169.89 million compared to ₱887.03 million used in the same period of 2016. The net cash used in investing activities was mainly attributable to the earn-out payment to Art of Click.

Cash Flows Provided by (Used in) Financing Activities

The Group's consolidated net cash flow used in financing activities for the period ended December 31, 2017 was ₱274.97 million; compared to ₱1,009.41 million provided as of December 31, 2016. The cash flow used in financing activities were mainly from payment of payable to a former shareholder of a subsidiary.

Capital Expenditure

The Group's capital expenditures for the period ended December 31, 2017 and the year ended December 31, 2016 amounted to ₱27.50 million and ₱50.93 million, respectively. Note that in 2016, additions through business combination were ₱0.63 million.

Key Financial Data In PhP Millions	December 31, 2017	December 31, 2016	
	Additions (Regular)	Additions (Business Combination)	Additions (Regular)
Office Equipment	3.08	0.06	2.34
IT Equipment	18.03	0.51	15.06
Furniture and Fixtures	0.95	0.07	7.12
Leasehold Improvements	4.33	-	23.98
Leased Asset	1.11	-	1.81
Transportation Equipment	-	-	-
Total	27.50	0.63	50.30

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at ₱244.43 million (current portion) as at December 31, 2017 and ₱314.13 million (current portion) and ₱491.29 million (non-current portion) for December 31, 2016. 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.

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 years ended December 31		
	2017	2016	2015
Liquidity Ratios			
Current Ratio	54%	105%	84%
Quick Ratio	51%	102%	81%
Asset-to-Equity Ratio	231%	219%	428%
Profitability Ratios			
Net Income Margin	2%	11%	25%
Gross Margin	31%	41%	57%
Operating Margin	12%	24%	39%
Return on Total Assets	1%	7%	9%
Return on Equity	1%	14%	19%
Debt Ratios			
Debt-to-Equity Ratio	0.97x	0.91x	2.31x
Interest Coverage Ratio	2.81x	11.84x	60.00x

Current Ratios

Current Ratio and Quick Ratios in the twelve-month period at December 31, 2017 were 54% and 51%, respectively, a decrease from their respective 105% and 102% figures during the full year of 2016. The decrease in both ratios was primarily from the significant increase in current liabilities and decrease of current assets of the Group for that period.

Asset-to-Equity Ratio

The increase in the asset-to-equity ratio from 219% in December 31, 2016 to 231% in December 31, 2017 resulted from the decrease in equity, particularly equity reserve, and decrease in total assets, particularly from financial assets as FVPL.

Profitability Ratios

Profitability margins decreased from December 31, 2016, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (31%), Net Income Margin (2%), Operating Margin (12%), Return on Total Assets (1%) and Return on Equity (1%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, expansion of operations offshore, salaries and wages paid to the Group's new employees for its organizational build-up program; and payment of professional and legal fees incurred from investments and acquisitions.

Debt Ratios

Debt to Equity in December 31, 2017 was at 0.97x compared to 0.91x as at December 31, 2016. The increase in the gearing ratio was attributed to the lower total equity value in December 31, 2017 compare to the previous year. Interest coverage ratio in December 31, 2017 was at 2.81x compared to 11.84x the previous year. The decrease in this ratio is because of the lower recorded earnings before interest and tax expense and higher interest expense in 2017 compared to 2016.

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

Current Ratios

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

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

Asset-to-equity Ratio

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

Profitability Ratios

6. Net income ratio	$\frac{\text{Net income attributable to Parent Company}}{\text{Service income} + \text{Sale of goods}}$
---------------------	---

7. Gross margin	$\frac{(\text{Service income} + \text{Sale of goods}) - (\text{Cost of services} + \text{Cost of goods sold})}{\text{Service income} + \text{Sale of goods}}$
-----------------	---

8. Operating margin	$\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Service income} + \text{Sale of goods}}$
---------------------	--

9. Return on total assets	$\frac{\text{Net income attributable to Parent Company}}{\text{Average total assets}}$
---------------------------	--

10. Return on total equity	$\frac{\text{Net income attributable to Parent Company}}{\text{Average total equity attributable to the Parent Company}}$
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Other Disclosures:

- viii. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines and negotiate for longer payment terms for its payables.
- ix. 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.
- x. 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.

- xii. Material Commitments for Capital Expenditure. There are no material commitments for capital expenditures.
- xiii. Material Events/ Uncertainties. There are no known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- xiv. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- xv. 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.

ITEM 7. Financial Statements

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

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

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

Independent Public Accountants, External Audit Fees and Services

The consolidated financial statements of the Group as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 were audited by SGV & Co., independent auditors, in accordance with Philippine Standards on Auditing (PSA).

SGV & Co. has acted as the Group's independent auditors since 2008. Since 2017, the audit partner for the Group is Mr. Dolmar C. Montañez. The Company has not had any material disagreement on accounting and financial disclosure with SGV & Co. for the periods stated above or during interim periods. SGV & Co. has neither shareholding in the Group nor any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Group. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

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

The aggregate fees billed for each of the last two calendar years for professional services rendered by the external auditor were ₱1,800,000 and ₱1,056,000 for 2018 and 2017, respectively. The audit fees for 2019 are estimated to be at ₱1,980,000. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, tax consultancy and assistance in the preparation of annual income tax returns.

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

ITEM 9. Directors and Executive Officers of the Issuer

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

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

As of December 31, 2018, the composition of the Company's Board is as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Nico Jose S. Nolloedo	42	Filipino	Chairman	2001
Raymond Gerard S. Racaza	41	Filipino	Director, President and Chief Executive Officer ⁴	2001
Fernando Jude F. Garcia	45	Filipino	Director and Chief Technology Officer ⁵	2001
Mercedita S. Nolloedo	77	Filipino	Director	2001
Wilfredo Oposa Racaza	70	Filipino	Director	2001
Jonathan Gerard A. Gurango	61	Filipino	Independent Director	2014
Alvin D. Lao	47	Filipino	Independent Director	2014

Each of the Company's directors was elected to the Board during the Company's annual stockholders' meeting held on July 17, 2018. Each director shall remain in office until the next annual meeting of the stockholders of the Company or his or her removal or resignation as may be allowed under law.

The table below sets forth the Company's executive officers in addition to its executive directors listed above as of December 31, 2018:

Name	Age	Citizenship	Position
Alexander D. Corpuz	52	Filipino	Chief Finance Officer and Chief Information Officer ⁶
Mark S. Gorriceta	41	Filipino	Corporate Secretary, Chief Legal Officer and Chief Officer

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

Nico Jose S. Nolloedo, Filipino, 42, director of the Company since 2001.

Mr. Nolloedo is the Chairman of Xurpas Inc. He is the first Filipino Entrepreneur chosen by the Endeavour network. He is also Ernst and Young's 2015 Philippine Entrepreneur of the year and was chosen as one of The Outstanding Young Men ("TOYM") in the Philippines in 2015. Mr. Nolloedo holds a Bachelor of Science degree in Management from Ateneo de Manila University.

⁴ Mr. Raymond Gerard S. Racaza resigned as Director, President and Chief Executive Officer effective January 30, 2019.

⁵ Mr. Fernando Jude F. Garcia was appointed as Treasurer effective February 1, 2019.

⁶ Mr. Alexander D. Corpuz was appointed as Director and President effective February 1, 2019.

Raymond Gerard S. Racaza, Filipino, 41, director of the Company from 2001 until January 30, 2019.

Mr. Racaza is a co-founder and was the President and Chief Executive Officer of the Company until January 30, 2019. He remains to be the Chairman, President and Chief Executive Officer of Xeleb Technologies. Before founding the Company, he was a Senior Solutions Consultant of Wireless Internet Solutions, Inc. and was part of the original development team of iAyala that built the first Wireless Application Protocol (WAP) site in the Philippines. In 2016, Mr. Racaza was recognized as Executive of the Year in the consumer non-durables category of the International Business Awards. Mr. Racaza holds a Bachelor of Science degree in Computer Science, Major in Information Technology from De La Salle University.

Fernando Jude F. Garcia, Filipino, 45, director of the Company since 2001.

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

Wilfredo O. Racaza, Filipino, 70, director of the Company since 2001.

Mr. Racaza has 49 years of marketing and finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. He is currently an insurance executive in Manulife Financial Philippines for the last 33 years up to present. He is a Registered Financial Consultant (Graduated Cum Laude in May 2015). He has garnered numerous accolades and multiple awards such as Branch of the Year recognitions and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to Present. Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University (Ateneo de Cagayan) in Cagayan de Oro City.

Mercedita S. Nollo, Filipino, 77, director of the Company since 2001.

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

Jonathan Gerard A. Gurango, 61, Filipino, independent director of the Company since 2014.

Mr. Gurango has a solid track record in forming and running successful software companies. He founded Match Data Systems (MDS) in Seattle, USA in 1987, MDS Philippines in 1991, and MDS Australia in 1996. In 1999, he sold MDS to Great Plains Software, which was acquired by Microsoft in 2001. Mr. Gurango served as the Asia Pacific Regional Director for Microsoft Business Solutions, before he left in 2003 to form Gurango Software. In 2007, he was inducted into the Hall of Fame for Microsoft's Most Valuable Professionals, in recognition of his mastery of software technology and business. In 2006, the Philippine Center for Entrepreneurship acknowledged him as one of the country's Ten Most Inspiring Technopreneurs. In addition to leading Gurango Software as the most successful Microsoft Dynamics partner in the Philippines, he has co-founded several other software start-ups such as SPRING.ph, and was the President of the Philippine Software Industry Association from 2013 to 2014. Mr. Gurango studied Industrial Engineering at the University of the Philippines, Diliman, Quezon City. He also studied Electrical Engineering at the University of Washington, Seattle, Washington, USA.

Alvin D. Lao, 47, Filipino, independent director of the Company since 2014.

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

Mark S. Gorriceta, 41, Filipino, Corporate Secretary, Chief Legal Officer and Chief Compliance Officer of the Company since 2014.

Atty. Gorriceta has been in the practice of law for fourteen years. He acts as legal counsel to several other listed companies, its subsidiaries or affiliates. Atty. Gorriceta also serves as Chief Legal Counsel and/or Corporate Secretary to several leading online and tech companies in the Philippines. He heads the Corporate Group of Gorriceta Africa Cauton & Saavedra. He was formerly connected with the Law Firm of Quiason Makalintal Barot Torres & Ibarra. A member of the Philippine Bar since 2005, he holds a Bachelor of Arts, Political Science degree from the Ateneo de Manila University. He also attended certificate courses in Finance at the Asian Institute of Management in Makati City. Atty. Gorriceta is currently enrolled in Harvard University's certificate program in Corporate Finance.

Alexander D. Corpuz, 52, Filipino, Chief Finance Officer and Chief Information Officer of the Company since 2014.⁷

Mr. Corpuz has 29 years of experience in the field of finance, ten years of which was in investment and commercial banking. He is currently the Chief Finance Officer of Xeleb Technologies. He is also a Director in Yondu, and Seer. He was Vice President of Bank of America in 2001, before serving as CFO for Liberty Telecoms, Information Gateway, Mañosa Group of Companies and Hatchd Inc. Mr. Corpuz holds a Bachelor of Science in Business Administration degree from University of the

⁷ Mr. Alexander D. Corpuz was appointed as Director and President effective February 1, 2019.

Philippines, Diliman, Cum Laude. He obtained his Masters in Business Management from the Asian Institute of Management, Makati City. He is a member of the Financial Executives Institute of the Philippines (FINEX).

Significant Employees

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

Family Relationships

Mr. Nico Jose S. Nollado, Chairman, and Chief Executive Officer, is the son of Atty. Mercedita S. Nollado, a director. Mr. Raymond Gerard S. Racaza, President and Chief Operating Officer, is the son of Mr. Wilfredo O. Racaza, also a director of the Company.

There are no family relationships between the current members of the Board and the key officers other than the above.

Involvement in Certain Legal Proceedings

There are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Company or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency.

As of this report, the Company is not a party to any litigation or arbitration proceedings of material importance, which could be expected to have a material adverse effect on the Company or on the results of its operations. No litigation or claim of material importance is known to be pending or threatened against the Company or any of its properties.

ITEM 10. Executive Compensation

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

The following table summarizes the aggregate compensation received by the President and Chief Executive Officer, and top five (5) most highly compensated officers of the Company for the past five (5) years:

Name	Position	Salary	Estimated		Total
			Bonus	Other	
Raymond Gerard S. Racaza	President & Chief Executive Officer ⁸				
Alexander D. Corpuz	Chief Finance Officer & Chief Information Officer				
Jose Vicente T. Colayco	Treasurer & Chief Operating Officer ⁹				
Alfonso A. Tagaysay	Chief Marketing Officer ⁷				
Total	2019 (Projected)	₱6,163,838.25	N/A	N/A	₱6,163,838.25
	2018	12,584,516.66	N/A	N/A	12,584,516.66
	2017	18,993,973.75	N/A	N/A	18,993,973.75
	2016	19,878,809.86	N/A	N/A	19,878,809.86
	2015	29,390,786.72	N/A	N/A	29,390,786.72

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

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

Compensation of Directors

Standard Arrangements

The directors receive a standard per diem of ₱20,000.00 for every meeting attended, which may be adjusted, as decided by the Personnel and Compensation Committee. Non-executive directors have no compensation aside from their per diem, while directors who hold executive positions receive compensation discussed in Item 6, in addition to their per diem.

Other Arrangements

The Company has no other existing arrangements such as bonus, profit sharing, stock options, warrants, rights, or other compensation plans or arrangements with its directors except for the

⁸ Mr. Raymond Gerard S. Racaza resigned as President and Chief Executive Officer of the Parent Company effective January 30, 2019.

⁹ On September 5, 2018, the Board of Directors of the Parent Company approved the reassignment of Mr. Jose Vicente Colayco and Mr. Alfonso Tagaysay to ODX Pte. Ltd, a wholly owned subsidiary of Xurpas. As such, Messrs. Colayco and Tagaysay resigned as Director, Treasurer and Chief Operating Officer and as Chief Marketing Officer, respectively, of Xurpas effective September 6, 2018.

Employee Stock Option Plan, approval of which is currently pending with the Securities and Exchange Commission and the listing of such shares is pending with the Philippine Stock Exchange.

Employment Contracts with Executive Officers

The Company does not have any compensatory plan or arrangements such as bonus, profit sharing, stock options, warrants, rights or other compensation plans or arrangements that results from the resignation, retirement of employment, or any other termination of an executive officer's employment with the Company, or from a change in control of the Company.

Warrants and Options Held by the Executive Officers and Directors

As of date, the Company does not have any stock options, warrants or similar plans for any of its directors or officers except the Employee Stock Option Plan, approval of which is currently pending with the Securities and Exchange Commission and the Philippine Stock Exchange.

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners

As of March 31, 2019, the Company is not aware of any person who is directly or indirectly the record or beneficial owner of more than 5% of the Company's capital stock except as set forth below:

Title of Class	Name and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Direct or Indirect)	Percent of Class
Common	Nico Jose S. Nollo Chairman and Chief Executive Officer	Nico Jose S. Nollo	Filipino	332,409,946 (Direct and Indirect)	17.77%
Common	Raymond Gerard S. Racaza President and Chief Operating Officer	Raymond Gerard S. Racaza	Filipino	375,765,960 (Direct)	20.08%
Common	Fernando Jude F. Garcia Chief Technology Officer	Fernando Jude F. Garcia	Filipino	375,073,960 (Direct)	20.05%
Common	PCD Nominee Corp.	PCD participants acting for themselves and for their	Filipino	412,378,075 (Direct)	22.04%

		customers ¹⁰			
Common	PCD Nominee Corp.	PCD participants acting for themselves and for their customers ¹¹	Non-Filipino	374,639,226 (Direct)	20.02%

As of March 31, 2019, 20.02% of the outstanding shares of the Company are held by non-Filipino.

Security ownership of directors and management as of March 31, 2018

As of March 31, 2019, the Company's directors and executive officers own the following number of shares:

Title of Class	Name of Owner and Position	Citizenship	No. of Shares and Nature of Ownership (Direct or Indirect)	Percent of Class
Common	Nico Jose S. Nolleo Chairman	Filipino	332,409,946 (Direct and Indirect)	17.77%
Common	Alexander D. Corpuz Director, President and Chief Information Officer	Filipino	1,000	0.00%
Common	Fernando Jude F. Garcia Director, Chief Technology Officer and Treasurer	Filipino	375,073,960 (Direct)	20.05%
Common	Mercedita S. Nolleo Director	Filipino	2,378,338 (Direct)	0.13%
Common	Wilfredo O. Racaza Director	Filipino	1,060 (Direct)	Nil
Common	Alvin D. Lao Independent Director	Filipino	1,084,010 (Direct)	0.06%
Common	Jonathan Gerard A. Gurango Independent Director	Filipino	169,399 (Direct)	0.01%
Total (Directors and Officers as a Group)			711,117,713	38.01%

Voting Trust Holders of 5% or More

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

Changes in Control

There was no change of control in the Company during the year. There are no existing provisions in the Company's Articles of Incorporation or By-Laws that will delay, defer, or in any manner prevent a change in control of the Company.

¹⁰ Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. The Company has no record relating to the power to decide how the shares held by PCD are to be voted.

¹¹ Id.

ITEM 12. Certain Relationships and Related Transactions

The Company has regularly disclosed its related party transactions such as acquisition of shares in corporations in which the Company has interlocking directors or common stockholders, with the Securities and Exchange Commission and the Philippine Stock Exchange. In the conduct of its day-to-day business, the Company engages in related party transactions such as service and licensing agreements, always at arms-length and taking into consideration the best interest of the Company.

PART IV – CORPORATE GOVERNANCE

ITEM 13. Corporate Governance. Pursuant to SEC Memorandum Circular No. 20 (Series of 2016), the Annual Corporate Governance Report (ACGR) for 2016 is no longer required to be attached herein. Further, pursuant to SEC Memorandum Circular No. 15 (Series of 2017), companies listed in the Philippine Stock Exchange by 31 December of a given year shall submit a fully accomplished I-ACGR on May 30 of the following year. Accordingly, the Company submitted its I-ACGR on May 30, 2018. You may refer to the Company's website for its Manual on Corporate Governance and its ACGR.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits – See accompanying Index to Exhibits

The other exhibits as indicated in the Exhibit Table of Revised Securities Act Forms are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed in 2018 and 1st quarter of 2019

DATE FILED	ITEMS REPORTED
January 5, 2018	Annual reporting of the attendance of the members of the board in its meetings.
January 8, 2018	Further amendment of Article II, Section 1 of the By-Laws to specify that the Annual Stockholders' Meeting shall be held every 2 nd Monday of May of each year.
January 9, 2018	The Company furnished the Commission with a copy of the certificate of attendance of Mr. Alvin D. Lao as proof of his attendance in a corporate governance seminar for the year 2017.
January 16, 2018	Certification of adoption of good corporate governance practices
January 17, 2018	<ul style="list-style-type: none"> a. Top 100 Stockholders as of December 31, 2017; and b. Public Ownership Report as of December 31, 2017.
February 5, 2018	<ul style="list-style-type: none"> a. Amended Disclosure on the Amendments to Articles of Incorporation to reflect expected filing of the amendments with the SEC; and b. Amended Disclosure on the Amendments to By-Laws to reflect expected filing of the amendments with the SEC,
February 15, 2018	<ul style="list-style-type: none"> a. Amended Disclosure on the Amendments to the Articles of Incorporation to reflect the approval of the amendment of the Company's Articles of Incorporation; and b. Notice of Annual Stockholders' Meeting, together with the attachment, the Notice and Agenda of the 2018 Annual Stockholders' Meeting.
February 26, 2018	Approval by the Board of Directors of the amended terms of the acquisition of AOC.
February 28, 2018	The Company furnished the Commission with a copy of the Exchange's request to submit the details on the acquisition of AOC. The Company likewise furnished the Commission with its Reply to the Exchange's Query on the details of the Acquisition of AOC.
March 12, 2018	<ul style="list-style-type: none"> a. The Company furnished the Commission with its Reply to the Exchange's query on the delayed disclosure of the approval of the amended articles of incorporation, including the letter-reply and medical certificate, which provide the information requested by the Exchange; b. Change in the Number of Issued and Outstanding Shares following the Company's issuance of shares to Messrs. Nico Jose S. Nollado, Raymond Gerard S. Racaza, and Fernando Jude F. Garcia in connection to their sale of shares on February 22, 2018; and c. List of Stockholders as of Record Date.

March 14, 2018	Amended Disclosure on the Amendments to By-Laws which reflects the approval of the Amended By-Laws by the Commission.
March 26, 2018	<p>a. Results of the Board Meeting held on March 23, 2018:</p> <ul style="list-style-type: none"> • Postponement of the ASM to July 17, 2018; and • Amendment of the Share Purchase Agreement which was executed by the Company and AOC on October 6, 2016 <p>b. Notice of Annual or Special Stockholders' Meeting giving notice to the new date of the 2018 ASM.</p>
April 12, 2018	The Company furnished the Commission with a copy of its Notice of Investors/Analysts' Briefing informing it that it will hold an Investors briefing via teleconference for its Full Year 2017 Earnings Results on 16 April 2018 (Monday) at 8:30 a.m., Manila time.
April 12, 2018	<p>a. List of Top 100 Stockholders as of March 31, 2018; and</p> <p>b. Public Ownership Report as of March 31, 2018</p>
April 16, 2018	Results of the Board Meeting held on April 13, 2018 approving the 2017 Consolidated Audited Financial Statements of the Company.
April 16, 2018	Press Release: Xurpas breaks Php2 billion in revenues in FY2017, set on recovering profits in 2018.
April 24, 2018	Attendance of the Company's directors and officers in the corporate governance training conducted by SyCip Gorres Velayo & Co. on April 20, 2018.
April 27, 2018	<p>Results of the Board Meeting held on April 26, 2018:</p> <ul style="list-style-type: none"> • The board of directors of the Company and Storm Technologies Inc. ("Storm") each approved the incorporation of a wholly-owned subsidiary in Singapore. <p>a. Amended Notice of Annual or Special Stockholders' Meeting giving notice of the record date, agenda, and date of closing of the stock and transfer book.</p>
May 10, 2018	Notice that the Company will hold an investors' briefing via teleconference for its First Quarter of 2018 Earnings Results on May 16, 2018 (Wednesday) at 9:00 a.m., Manila time.
May 16, 2018	<p>Results of the Board Meeting held on May 15, 2018:</p> <ul style="list-style-type: none"> • Approval of 2018 1st Quarter Unaudited Financial Statements of the Company and its subsidiaries; and • Approval of ODX Pte Ltd.'s fund raising activity.
May 16, 2018	Press Release: Xurpas launches blockchain initiatives, will sell up to \$US100 million worth of tokens with its first project.
May 23, 2018	List of Stockholders as of Record Date with attached list from BDO and Philippine Depository & Trust Corp.
June 13, 2018	Amended Notice of Annual or Special Stockholders' Meeting reflecting the change on the start date under the Inclusive Dates of Closing of Stock Transfer Books, from TBA to N/A; and attaching a signed copy of the notice of the 2018 ASM.
July 17, 2018	<p>a. List of Top 100 Stockholders as of June 30, 2018; and</p> <p>b. Public Ownership Report as of June 30, 2018.</p>
July 19, 2018	a. Results of the Annual or Stockholders' Meeting held on July 17,

	<p>2018:</p> <ul style="list-style-type: none"> • Approval of Minutes of Previous Meeting dated May 10, 2017; • Approval of Annual Report of the President/Chief Operating Officer and Chief Finance Officer; and • Appointment of Sycip Gorres Velayo & Co. as the Company's External Auditor <p>b. Results of Organizational Meeting held on July 17, 2018; and</p> <p>c. Press Release: Xurpas Announces Major Partnerships for Subsidiary ODX; Reveals Plans for Other Blockchain Projects.</p>
July 24, 2018	Amended Disclosure on the Results of the Organizational Meeting reflecting the appointment of Mr. Jose Vicente T. Colayco and Mr. Alexander D. Corpuz's as the Company's Treasurer and Chief Information Officer, respectively.
August 9, 2018	Notice of Analysts' Briefing via teleconference to discuss the First Half of 2018 Earnings Result on August 15, 2018 (Wednesday) at 9:00 a.m., Manila time.
August 14, 2018	Results of Board Meeting held on August 14, 2018: <ul style="list-style-type: none"> • Approval of the 2018 1st half unaudited consolidated financial statements of the Group; and • The Board also committed to strengthen its corporate social responsibility (CSR) activities for the Group for 2018.
August 15, 2018	Press Release: Xurpas Steps Up in Its Blockchain Initiatives through ODX
August 17, 2018	The Company furnished the Commission with its General Information Sheet for the year 2018.
September 06, 2018	Disclosure on the Board's approval of the Reassignment of Mr. Jose Vicente T. Colayco and Mr. Alfonso A. Tagaysay to ODX Pte Ltd, and accordingly, their resignations as Director, Treasurer and Chief Operating Officer and as Chief Marketing Officer, respectively.
September 07, 2018	The Company furnished the commission with PSE Disclosure Form 4-8 (Change in Directors and/or Officers) to reflect the Reassignment of Mr. Colayco and Mr. Tagaysay to ODX Pte. Ltd and accordingly, their resignation in Xurpas Inc., as Director, Chief Operating Officer and as Chief Marketing Officer, respectively.
October 02, 2018	<p>The Company furnished the Commission with a copy of its PSE disclosure wherein the board of directors of Xurpas Inc. approved the Incorporation of CTX Technologies Inc. ("CTX"), an entity that will operate as a Virtual Currency Exchange and which will have a platform that will accept cryptocurrencies as payment. CTX has secured an endorsement clearance from the Bangko Sentral ng Pilipinas with respect to its proposed primary purpose.</p> <p>CTX can only commence VCE operations upon completion of the BSP registration process.</p>
October 12, 2018	Public Ownership Report
October 16, 2018	List of Top 100 Stockholders
November 09, 2018	The Company furnished the Commission with a notice that it will hold an Analysts' briefing via teleconference to discuss the Third Quarter of 2018

	Earnings Result on November 15, 2018 (THURSDAY) at 8:00 a.m., Manila time.
November 14, 2018	Results of Board Meeting held on November 14, 2018 where approved the 2018 third (3rd) quarter unaudited consolidated financial statements of the Group.
November 15, 2018	Press Release: Xurpas posts net loss of P190 million for the first nine months of 2018, implements ongoing cost cutting measures in preparation for 2019
November 21, 2018	Clarification of News Report: Clarification of the news article entitled "Turnaround plan" published in the Biz Buzz section of the Philippine Daily Inquirer on November 21, 2018.
January 4, 2019	Certification on the attendance of the Board of Directors in its 2018 meetings
January 7, 2019	Certification on adoption of leading practices and principles of good corporate governance.
January 15, 2019	Public Ownership Report
January 16, 2019	List of Top 100 Stockholders
January 30, 2019	On January 29, 2019, Mr. Raymond Gerard S. Racaza resigned as Director, President and Chief Executive Officer. His resignation became effective on January 30, 2019. Mr. Alexander D. Corpuz and Mr. Fernando Jude F. Garcia was appointed as President and Treasurer, respectively.
January 30, 2019	Press Release: Listed tech company Xurpas Inc. (PSE: X) announced that it has engaged the services of Primeiro Partners as its financial advisor to provide strategic and financial advisory services for the company.
February 07, 2019	The Company furnished the Commission with its Amended General Information Sheet for the year 2018, incorporating the changes since its last submission.
February 20, 2019	The Company announced that its founders will provide shareholder advances in an aggregate amount of Php150 million into the Company, through shareholder advances. The said loan has been approved by the board of directors of the Company on the said date.

INDEX TO EXHIBITS

Form 17-A

No.		Page No.
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	*
(5)	Instruments Defining the Rights of Security Holders, Including Indentures	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, Form 11-Q or Quarterly Report to Security Holders	*
(13)	Letter re Change in Certifying Accountant	*
(16)	Report Furnished to Security Holders	*
(18)	Subsidiaries of the Registrant	**
(19)	Published Report Regarding Matters Submitted to Vote of Security Holders	*
(20)	Consent of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(29)	Additional Exhibits	*


*These Exhibits are either not applicable to the Company or require no answer.

**Please refer to *Note 2* of the accompanying Notes to the Consolidated Financial Statements for details.


SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of **PASIG CITY** on **APR 30 2019**.

By:



ALEXANDER D. CORPUZ
 President



FERNANDO JUDE F. GARCIA
 Treasurer



ESTRELITA B. LABAN
 Finance Controller

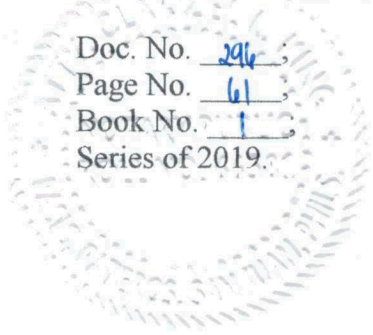


MARK S. GORRICETA
 Corporate Secretary

Republic of the Philippines)
PASIG CITY) S.S.

SUBSCRIBED AND SWORN to before me this **APR 30 2019** day of **2019** affiant(s) exhibiting to me his/their Competent Evidence of Identity, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUANCE	PLACE OF ISSUANCE
ALEXANDER D. CORPUZ	P5670777A	January 18, 2018	DFA NCR East
FERNANDO JUDE F. GARCIA	EC1973146	August 26, 2014	DFA NCR Northeast
MARK S. GORRICETA	EC5401039	September 19, 2015	DFA Manila
ESTRELITA B. LABAN	EC8421222	July 28, 2016	DFA NCR South



Doc. No. 296
 Page No. 61
 Book No. 1
 Series of 2019.


CLARIZEL L. KING
 PTR No. 5232387 / 01-8-2019 / Pasig City
 IBP LIFETIME No. 1042166; 06/09/2016/PPLM
 Roli No. 66581
 15th Floor Strata 2000 Building
 F. Ortigas, Jr. Road, Ortigas Center, Pasig City
 Appointment No. 219 (2018-2019) Pasig City
 Expiring on 31 December 2019

COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	2	0	0	1	1	7	7	0	8
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COMPANY NAME

X	U	R	P	A	S		I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S		

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

7	t	h		F	l	o	o	r		C	a	m	b	r	i	d	g	e		C	e	n	t	r	e		1	0	8			
				T	o	r	d	e	s	i	l	l	a	s		S	t	.		S	a	l	c	e	d	o		V	i	l	l	a
				g	e	,		M	a	k	a	t	i		C	i	t	y														

Form Type

A	C	F	S
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Department requiring the report

S	E	C
---	---	---

Secondary License Type, If Applicable

N	/	A
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COMPANY INFORMATION

Company's Email Address

info@xurpas.com

Company's Telephone Number

889-6467

Mobile Number

N/A

No. of Stockholders

26

Annual Meeting (Month / Day)

2nd Monday of May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Alexander D. Corpuz

Email Address

mar@xurpas.com

Telephone Number/s

889-6467

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

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

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

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



**“STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS”**

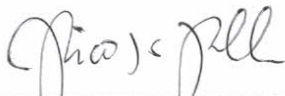
The management of **XURPAS INC. AND SUBSIDIARIES** (the “Group”) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

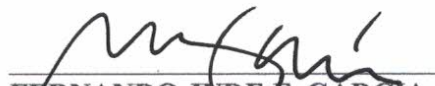
The Board of Directors is responsible for overseeing the Group’s financial reporting process.

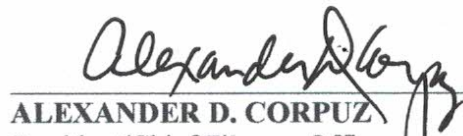
The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



NICO JOSE S. NOLLEDO
Chairman of the Board



FERNANDO JUDE F. GARCIA
Chief Technology Office/Treasurer

ALEXANDER D. CORPUZ
President/Chief Finance Officer

Signed this 30th of April 2019.

SUBSCRIBED AND SWORN to before me this APR 30 2019 at PASIG CITY affiants exhibiting to me their respective Passports:

Name	Passport No.	Date of Issuance	Place of Issuance
NICO JOSE S. NOLLEDO	P3513313A	June 28, 2017	DFA Manila
FERNANDO JUDE F. GARCIA	EC1973146	August 26, 2014	DFA NCR Northeast
ALEXANDER D. CORPUZ	P5670777A	January 18, 2018	DFA NCR East

Doc. No. 299 :
Page No. 61 :
Book No. 1 :
Series of 2019.

Clarizel King
CLARIZEL L. KING
PTR No. 5232387 / 01-8-2019 / Pasig City
IBP LIFETIME No. 1042166; 06/09/2016/PPLM
Roll No. 66581
15th Floor Strata 2000 Building
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
Appointment No. 219 (2018-2019) Pasig City
Expiring on 31 December 2019

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred a net loss of ₱811.64 million and net operating cash outflow of ₱186.02 million for the year ended December 31, 2018 and, as of that date, the Group's current liabilities exceeded its current assets by ₱348.02 million. As stated in Note 1, these events or conditions, along with other matters as set forth in Notes 1 and 27, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adoption of PFRS 15, Revenue from Contracts with Customers

The Group mainly provides mobile consumer products and services, mobile enterprise services and knowledge process outsourcing services to its customers. Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under modified retrospective approach. The adoption of PFRS 15 resulted in changes in the Group's revenue recognition policies, primarily on its mobile enterprise services. The Group recorded transition adjustments that decreased retained earnings as of January 1, 2018 by ₱4.06 million.

The adoption of PFRS 15 is significant to our audit because this involves significant management judgment and estimation in the application of output method as the measure of progress in determining revenue from platform development and customization under mobile enterprise services segment. 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.

The disclosures related to the adoption of PFRS 15 are included in Notes 2 and 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process of implementing the new revenue recognition standard. We reviewed the revenue streams identification and scoping and contract analysis.

We obtained an understanding of the Group's processes for determining the completion of proportion of work under the output method and performed tests of the relevant controls. We obtained the progress report certificate prepared by the Group's specialists. We assessed the competence and objectivity of the Group's specialists by reference to their qualifications, experience and reporting responsibilities. For selected projects, we performed inquiries and obtained the supporting details of progress report certificate showing the completion of proportion of work of the major phases of the platform development and customization.

We tested the computed transition adjustments and evaluated the disclosures made in the consolidated financial statements on the adoption of PFRS 15.



Accounting for cryptocurrency transactions

The Group entered into various agreements during the year related to cryptocurrency transactions. The Group received funds denominated in both fiat and crypto currencies, and recognized certain obligations which include, among others, possible settlement of the funding in cash or through its own equity securities, building a platform, and issuance of own token in the future. The accounting for cryptocurrency transactions was significant to our audit because of (a) the significance of the resulting liabilities to the consolidated financial statements, (b) the use of blockchain technology to support the existence and completeness of cryptocurrency transactions, (c) involvement of an emerging area of accounting for cryptocurrency transactions, and (d) involvement of significant management judgment and estimation in determining the recognition and valuation of intangible assets and certain liabilities.

The Group's disclosures about cryptocurrency transactions are included in Notes 2, 11 and 30 to the consolidated financial statements.

Audit Response

We involved our internal specialists in understanding and evaluating blockchains that support the amounts recorded by the Group. We obtained the Group's listing of cryptocurrency transactions and selected a sample of transactions. For each transaction selected, we agreed the transaction details such as quantity received/sold, public address, date/time to the public blockchain and traced cash received to bank statements. We also inspected record of cryptocurrency transactions and balances on the public blockchain ledger by using multiple third-party block explorers. In addition, we read significant agreements and performed confirmation procedures for selected significant balances. We also recalculated realized gains/losses from the conversion of cryptocurrencies to fiat currency. We obtained management's judgment and analysis in determining whether a constructive obligation exist based on the terms of the agreements and the general expectations of the counterparties. We evaluated the Group's accounting policies for cryptocurrency transactions, including the related disclosures.

Realizability of goodwill, intangible asset with indefinite useful life and investments in associates

The Group has goodwill and intangible asset with indefinite useful life arising from past acquisitions and business combinations. The Group also has various investments in associates. Under PFRSs, the Group is required to annually test the amount of goodwill and other intangible assets with indefinite useful life for impairment, while an investment in associate is tested for impairment when an indication that the investment is impaired exists. These impairment tests are significant to our audit because the balance of goodwill, intangible asset with indefinite useful life and investment in associates as of December 31, 2018 is material to the consolidated financial statements. In addition, management's assessment process is complex and judgmental and is based on assumptions, specifically discount rates, growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) margins, working capital and capital expenditures.

The Group's disclosures about goodwill and intangible asset with indefinite useful life are included in Notes 3 and 11 while the disclosures about investments in associates are included in Note 9 to the consolidated financial statements.



Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used in the impairment testing analyses. These assumptions include discount rates, growth rates, EBITDA margins, working capital and capital expenditures. We compared the key assumptions used, such as growth rates, EBITDA margins, working capital and capital expenditures against the historical performance of the subsidiaries and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill, intangible asset with indefinite useful life and investments in associates.

Provisions and Contingencies

The Group is involved in assessments for national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosures about provisions and contingencies are included in Notes 3 and 30 to the consolidated financial statements.

Audit Response

We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the tax assessment, and obtained correspondences with the relevant tax authorities and opinions of the external legal/tax counsels. We evaluated the tax position of the management by considering the tax laws, rulings and jurisprudence.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) for the year ended December 31, 2018, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to



the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

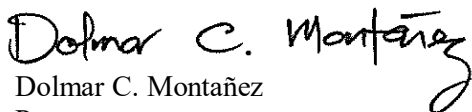
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dolmar C. Montañez.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez

Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),

January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 7332588, January 3, 2019, Makati City

April 30, 2019



XURPAS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



ASSETS

Current Assets

Cash (Notes 4 and 27)	P177,396,187	P215,254,510
Accounts and other receivables (Notes 5, 20 and 27)	530,636,685	845,666,454
Contract assets (Notes 2 and 6)	9,748,084	-
Other current assets (Note 8)	57,901,437	57,943,929
Total Current Assets	775,682,393	1,118,864,893

Noncurrent Assets

Financial assets at fair value through other comprehensive income (Notes 2, 7 and 27)	475,000	-
Available-for-sale financial assets (Notes 7 and 27)	-	159,053,079
Investments in associates (Note 9)	455,995,470	515,662,941
Property and equipment (Note 10)	59,520,797	76,145,631
Intangible assets (Notes 11 and 23)	3,612,923,684	3,773,880,106
Pension assets (Note 22)	1,410,282	310,699
Deferred tax assets - net (Notes 21 and 23)	14,186,692	115,527,088
Other noncurrent assets	46,370,777	50,735,845
Total Noncurrent Assets	4,190,882,702	4,691,315,389
	P4,966,565,095	P5,810,180,282

LIABILITIES AND EQUITY

Current Liabilities

Accounts and other payables (Notes 12, 20 and 27)	P654,522,147	P493,108,422
Loans payable (Notes 13 and 27)	358,741,481	377,419,000
Contract liabilities (Notes 2 and 6)	44,498,497	-
Income tax payable	2,190,193	10,081,586
Liability for written put option (Notes 23 and 27)	-	864,705,965
Payable to former shareholders of a subsidiary (Note 23)	-	244,426,311
Other current liabilities (Note 14)	63,753,036	77,172,352
Total Current Liabilities	1,123,705,354	2,066,913,636

Noncurrent Liabilities

Finance lease - net of current portion (Note 19)	25,388	605,713
Deferred tax liabilities - net (Notes 21 and 23)	352,729,028	355,859,101
Pension liabilities (Note 22)	23,521,092	31,302,583
Total Noncurrent Liabilities	376,275,508	387,767,397
Total Liabilities	1,499,980,862	2,454,681,033

Equity

Equity attributable to equity holders of Xurpas Inc.		
Capital stock (Note 24)	193,492,585	186,764,015
Additional paid-in capital (Note 24)	3,592,076,662	3,343,119,550
Retained earnings (deficit) (Note 24)	(556,374,537)	322,730,858
Net unrealized loss on financial assets at FVOCI (Note 7)	(44,219,956)	-
Net unrealized loss on AFS financial assets (Note 7)	-	(70,000)
Cumulative translation adjustment	34,451,988	35,366,128
Retirement benefit reserve (Note 22)	5,475,312	(1,189,261)
Equity reserve (Notes 23 and 24)	(402,222,322)	(1,250,719,186)
Treasury stock (Note 24)	(115,464,275)	(115,464,275)
	2,707,215,457	2,520,537,829
Noncontrolling interests (Notes 23 and 24)	759,368,776	834,961,420
Total Equity	3,466,584,233	3,355,499,249
	P4,966,565,095	P5,810,180,282

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
INCOME			
Service income (Note 15)	₱1,153,342,488	₱2,009,551,016	₱1,896,460,031
Sale of goods	88,845,797	94,018,662	50,678,833
	1,242,188,285	2,103,569,678	1,947,138,864
COST AND EXPENSES			
Cost of services (Note 16)	1,062,874,019	1,373,414,504	1,101,895,599
Cost of goods sold	69,727,817	81,005,679	41,818,202
	1,132,601,836	1,454,420,183	1,143,713,801
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)			
	701,044,377	572,616,955	354,727,296
EQUITY IN NET LOSSES OF ASSOCIATES (Note 9)			
	52,988,467	36,721,355	33,902,387
OTHER (INCOME) CHARGES - NET (Note 18)			
	22,687,905	(82,228,258)	35,690,480
	776,720,749	527,110,052	424,320,163
INCOME (LOSS) BEFORE INCOME TAX	(667,134,300)	122,039,443	379,104,900
PROVISION FOR INCOME TAX (Note 21)	144,506,949	19,467,099	114,268,767
NET INCOME (LOSS)	(811,641,249)	102,572,344	264,836,133
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gain on AFS financial assets (Note 7)	–	80,000	60,000
Cumulative translation adjustment	7,701,974	15,472,390	17,679
Share in OCI of an associate from cumulative translation adjustment (Note 9)	(8,656,022)	2,528,551	11,168,879
<i>Item that may not be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gain on financial assets at FVOCI (Note 7)	95,000	–	–
Remeasurement gain on defined benefit plan, net of tax (Note 22)	9,125,561	3,067,528	6,236,333
	8,266,513	21,148,469	17,482,891
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱803,374,736)	₱123,720,813	₱282,319,024
Net income (loss) attributable to:			
Equity holders of Xurpas Inc.	(₱765,794,458)	₱35,765,776	₱215,304,020
Noncontrolling interests	(45,846,791)	66,806,568	49,532,113
	(₱811,641,249)	₱102,572,344	₱264,836,133
Total comprehensive income (loss) attributable to:			
Equity holders of Xurpas Inc.	(₱759,949,025)	₱56,505,176	₱230,461,838
Noncontrolling interests	(43,425,711)	67,215,637	51,857,186
	(₱803,374,736)	₱123,720,813	₱282,319,024
Earnings (loss) per share (Note 26)			
Basic	(₱0.41)	₱0.02	₱0.12
Diluted	(₱0.41)	₱0.02	₱0.12

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year Ended December 31, 2018

Equity attributable to equity holders of Xurpas Inc.

	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings Appropriated (Note 24)	Retained Earnings Unappropriated (Notes 2 and 24)	Net Unrealized Loss on Financial Assets at FVOCI (Notes 2 and 7)	Net Unrealized Loss on AFS Financial Assets (Notes 2 and 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury Shares (Note 24)	Total	Non- Controlling Interest	Total Equity
Balances at beginning of year, as previously reported	₱186,764,015	₱3,343,119,550	₱115,464,275	₱207,266,583	₱-	(₱70,000)	₱35,366,128	(₱1,189,261)	1,250,719,186	(₱115,464,275)	₱2,520,537,829	₱834,961,420	₱3,355,499,249
Adjustments as a result of PFRS 9 adoption	-	-	-	(113,359,317)	(44,314,956)	70,000	-	-	-	-	(157,604,273)	(127,826)	(157,732,099)
Adjustments as a result of PFRS 15 adoption	-	-	-	(3,144,915)	-	-	-	-	-	-	(3,144,915)	(911,415)	(4,056,330)
Balances at beginning of year, as restated	186,764,015	3,343,119,550	115,464,275	90,762,351	(44,314,956)	-	35,366,128	(1,189,261)	(1,250,719,186)	(115,464,275)	2,359,788,641	833,922,179	3,193,710,820
Issuance of common shares through cash subscription	6,728,570	248,957,112	-	-	-	-	-	-	-	-	255,685,682	-	255,685,682
Cash dividend declaration	-	-	-	-	-	-	-	-	-	-	-	(39,908,698)	(39,908,698)
Increase in noncontrolling interest - net (Note 2)	-	-	-	3,193,295	-	-	-	-	-	-	3,193,295	8,781,006	11,974,301
Expiration of written put option	-	-	-	(765,794,458)	-	-	-	-	848,496,864	-	848,496,864	-	848,496,864
Net loss	-	-	-	(765,794,458)	-	-	-	-	-	-	(765,794,458)	(45,846,791)	(811,641,249)
Other comprehensive income (loss)	-	-	-	-	95,000	(914,140)	6,664,573	-	-	-	5,845,433	2,421,080	8,266,513
Total comprehensive income (loss)	-	-	-	(765,794,458)	95,000	(914,140)	6,664,573	-	-	-	(759,949,025)	(43,425,711)	(803,374,736)
Balances at end of year	₱193,492,585	₱3,592,076,662	₱115,464,275	(₱671,838,812)	(₱44,219,956)	₱-	₱34,451,988	₱5,475,312	(₱402,222,322)	(₱115,464,275)	₱2,704,022,162	₱759,368,776	₱3,466,584,233



Year Ended December 31, 2017

Equity attributable to equity holders of Xurpas Inc.

	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Available- for-sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury shares (Note 24)	Total	Non- Controlling Interest	Total Equity
Balances at beginning of year	P 186,764,015	P 3,343,119,550	P 235,819,709	P 143,993,010	(P 150,000)	P 16,457,357	(P 2,939,890)	(P 892,221,754)	(P 71,510,352)	P 2,959,331,645	P 830,167,876	P 3,789,499,521
Appropriation for share buy-back transactions	-	-	26,649,121	(26,649,121)	-	-	-	-	-	-	-	-
Reversal of appropriation for share buy-back transactions	-	-	(81,184,846)	81,184,846	-	-	-	-	-	(92,847,637)	(59,896,761)	(152,744,398)
Cash dividend declaration	-	-	-	(92,847,637)	-	-	-	-	-	-	-	-
Reversal of appropriation for dividend declaration	-	-	(65,819,709)	65,819,709	-	-	-	-	-	-	-	-
Payments to a former shareholder of a subsidiary	-	-	-	-	-	-	-	(358,497,432)	-	(358,497,432)	-	(358,497,432)
Acquisition by a subsidiary of its own shares from noncontrolling interest shareholders	-	-	-	-	-	-	-	-	-	(43,953,923)	(2,525,332)	(43,953,923)
Share buy-back transactions	-	-	-	-	-	-	-	-	-	35,765,776	66,806,568	102,572,344
Net income	-	-	-	35,765,776	-	-	-	-	-	20,739,400	409,069	21,148,469
Other comprehensive income - net of tax effect	-	-	-	-	80,000	18,908,771	1,750,629	-	-	56,505,176	67,215,637	123,720,813
Total comprehensive income	-	-	-	35,765,776	80,000	18,908,771	1,750,629	-	-	20,739,400	409,069	21,148,469
Balances at end of year	P 186,764,015	P 3,343,119,550	P 115,464,275	P 207,266,583	(P 70,000)	P 35,366,128	(P 1,189,261)	(P 1,250,719,186)	(P 115,464,275)	P 2,520,537,829	P 834,961,420	P 3,355,499,249



Year Ended December 31, 2016

	Equity attributable to equity holders of Xurpas Inc.											
	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Unrealized Loss on Available- for-sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22) (Notes 23 and 24)	Equity Reserve (Note 24)	Treasury shares (Note 24)	Total	Non- Controlling Interest	Total Equity
Balances at beginning of year	₱172,000,066	₱1,219,718,163	₱65,819,709	₱184,978,622	(₱210,000)	₱6,484,416	(₱8,064,767)	(₱848,496,865)	₱-	₱792,229,344	₱771,522,209	₱1,563,751,553
Issuance of new shares through cash subscription	7,770,000	1,190,606,997	-	-	-	-	-	-	-	1,198,376,997	-	1,198,376,997
Appropriation for share buy-back transactions	-	-	170,000,000	(170,000,000)	-	-	-	-	-	-	-	-
Cash dividend declaration	-	-	-	(86,289,632)	-	-	-	-	-	(86,289,632)	(4,900,000)	(91,189,632)
Acquisition of a subsidiary	6,993,949	932,794,390	-	-	-	-	-	-	-	939,788,339	-	939,788,339
Acquisition of NCI	-	-	-	-	-	-	-	(43,724,889)	-	(43,724,889)	(12,927,441)	(56,652,330)
Issuance of a subsidiary's shares to noncontrolling interest shareholders	-	-	-	-	-	-	-	-	-	-	-	-
Share buy-back transactions	-	-	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	215,304,020	-	-	-	-	-	215,304,020	49,532,113	24,615,922
Other comprehensive income - net of tax effect	-	-	-	-	60,000	9,972,941	5,124,877	-	-	15,157,818	2,325,073	24,615,922
Total comprehensive income	-	-	-	-	60,000	9,972,941	5,124,877	-	-	230,461,838	51,857,186	282,319,024
Balances at end of year, as restated	₱186,764,015	₱3,343,119,550	₱235,819,709	₱143,993,010	(₱150,000)	₱16,457,357	(₱2,939,890)	(₱892,221,754)	(₱71,510,352)	₱2,959,331,645	₱830,167,876	₱3,789,499,521

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	(P667,134,300)	P122,039,443	P379,104,900
Adjustments for:			
Provision for impairment loss (Note 11)	144,855,367	–	–
Depreciation and amortization (Notes 10, 11, 16 and 17)	69,188,578	66,975,820	48,631,028
Equity in net losses of associates (Note 9)	52,988,467	36,721,355	33,902,387
Interest expense (Notes 13, 18 and 20)	31,109,017	5,904,716	13,018,342
Loss from sale of cryptocurrencies (Notes 11 and 18)	4,985,487	–	–
Unrealized foreign currency exchange loss (gain)	4,555,232	(8,677,654)	17,717,894
Unrealized loss on revaluation of cryptocurrencies (Notes 11 and 18)	2,551,474	–	–
Unrealized gain from financial assets at FVPL	–	–	(915,489)
Realized gain from redemption of financial assets at FVPL	–	(2,216,289)	(4,836,415)
Gain on curtailment (Note 22)	–	(2,924,924)	(5,767,588)
Other income (charges) subsequent to a business combination (Notes 18 and 23)	–	(90,912,178)	44,737,874
Interest income (Note 4)	(444,430)	(1,588,435)	(3,025,253)
Loss (gain) on retirement and disposal of property and equipment (Notes 10 and 18)	(1,041,683)	316,001	(619,450)
Realized foreign exchange gain on sale of cryptocurrencies	(2,469,611)	–	–
Pension expense, net of contributions (Note 22)	(8,881,074)	11,778,555	323,136
Gain from expiration of liability for written put option (Notes 18 and 23)	(16,209,100)	–	–
Operating income (loss) before changes in working capital	(385,946,576)	137,416,410	522,271,366
Changes in working capital:			
Decrease (increase) in:			
Accounts and other receivables and contract assets - net	304,183,225	111,235,958	(157,779,241)
Other current assets	42,492	(5,315,085)	(6,132,763)
Increase (decrease) in:			
Accounts and other payables	(27,647,167)	76,645,851	(14,087,922)
Contract liabilities	44,498,497	–	–
Other current liabilities	(40,039,853)	67,736,955	(168,178,916)
Net cash generated from (used in) operations	(104,909,382)	387,720,089	176,092,524
Interest received	444,430	1,588,435	3,025,253
Interest paid	(27,363,844)	(4,767,843)	(12,985,688)
Income taxes paid, including creditable withholding taxes	(54,188,050)	(136,019,397)	(148,241,920)
Net cash provided by (used in) operating activities	(186,016,846)	248,521,284	17,890,169
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of cryptocurrencies (Note 11)	158,524,137	(10,571,807)	(14,442,412)
Collection from financial assets at FVOCI (Note 7)	6,000,000	–	–
Decrease (increase) in other noncurrent assets	4,365,067	5,021,105	(3,623,269)
Proceeds from disposal of property and equipment (Note 10)	3,934,123	338,131,778	2,881,419
Proceeds from redemption of investments in financial assets at FVPL	–	–	2,270,154,282
Acquisition of a subsidiary, net of cash acquired (Note 23)	–	–	(36,419,930)
Additions to:			
Financial assets at FVPL	–	–	(2,520,000,000)
Available-for-sale financial assets (Note 7)	–	(6,000,000)	(67,296,000)
Investments in associates (Note 9)	(1,977,018)	–	(469,780,137)
Property and equipment (Note 10)	(17,593,227)	(26,383,728)	(48,505,655)
Payments to a former shareholder of a subsidiary (Note 23)	(255,685,683)	(470,087,747)	–
Net cash used in investing activities	(102,432,601)	(169,890,399)	(887,031,702)

(Forward)



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans payable (Note 13)	₱317,741,455	₱407,419,000	₱3,000,000
Issuance of shares (Note 24)	255,685,683	-	1,243,200,000
Increase in noncontrolling interest	11,974,301	-	24,615,922
Payment of finance lease liability (Note 19)	1,029,517	(1,863,531)	(1,640,872)
Purchase of treasury shares (Note 24)	-	(43,953,923)	(71,510,352)
Payments to a former shareholder of a subsidiary (Note 23)	-	(358,497,432)	-
Transaction cost (Note 24)	-	-	(44,823,003)
Acquisition of noncontrolling interest (Note 24)	-	-	(56,652,330)
Dividends paid (Note 24)	(13,819,758)	(231,078,267)	(86,779,632)
Payment of loans payable (Note 13)	(336,418,974)	(46,998,370)	-
Net cash provided by (used in) financing activities	236,192,224	(274,972,523)	1,009,409,733
EFFECT OF FOREIGN CURRENCY EXCHANGE			
RATE CHANGES ON CASH	14,398,900	(16,921,505)	(17,635,549)
NET INCREASE (DECREASE) IN CASH	(37,858,323)	(213,263,143)	122,632,651
CASH AT BEGINNING OF YEAR	215,254,510	428,517,653	305,885,002
CASH AT END OF YEAR (Note 4)	₱177,396,187	₱215,254,510	₱428,517,653

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES

NOTES TO 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 December 2, 2014, the Parent Company's shares of stock were listed in the Philippine Stock Exchange (PSE).

The Group incurred a net loss of ₱811.64 million and net operating cash outflow of ₱186.02 million for the year ended December 31, 2018 and, as of that date, the Group's current liabilities exceeded its current assets by ₱348.02 million. The Group's current liabilities include loans payable to banks amounting to ₱321.00 million which have a maturity of 2 to 5 months from the reporting period. The Group's continuing financial difficulties indicate that a material uncertainty exists on the Group's ability to continue as a going concern and therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Management's plans on future actions to address such uncertainty include the Group's continuous venture into new revenue potentials and cost cutting measures. The Group also engaged a third-party financial advisor to provide strategic services to the Group, which include negotiations with the banks for the extension of the maturity of the Group's existing loans and sourcing potential strategic investors for the Group. The Group also obtained advances from its stockholders for funding enterprise projects and for general corporate purposes, of which ₱120.00 million has been received as of April 30, 2019. Management does not have plans to liquidate and continues to believe that the Group is in a unique position being one of the few technology companies that can offer digital transformation to potential strategic investors and develop programs for consumer business.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 30, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation

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



Statement of Compliance

The accompanying consolidated financial statements of the Group as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018 have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as at December 31, 2018 and 2017.

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 an 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 of December 31, 2018, 2017 and 2016, the consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries:

	Percentage Ownership			Principal Activities
	2018	2017	2016	
Xeleb Technologies Inc. (Xeleb Technologies)	67.00%	67.00%	67.00%	Enterprise services and mobile consumer services
Xeleb Inc. (Xeleb)	67.00	67.00	67.00	Mobile consumer services
Seer Technologies, Inc. (Seer)	70.00	70.00	70.00	Enterprise services
Codesignate Inc. (Codesignate)*	52.50	52.50	52.50	Enterprise services
Storm Technologies, Inc. (Storm)	53.96	56.60	56.60	Human resource management
Pt. Storm Benefits Indonesia (Storm Indonesia)	53.96	56.60	56.60	Human resource management
Yondu Inc. (Yondu)	51.00	51.00	51.00	Enterprise services and mobile consumer services
Rocket Search Inc. (formerly Yondu Software Labs Inc.) (RSI)	51.00	51.00	–	Enterprise services
Xurpas Enterprise Inc. (Xurpas Enterprise)	100.00	100.00	100.00	Enterprise services
Art of Click Pte. Ltd. (AOC)	100.00	100.00	100.00	Mobile consumer services
ODX Pte. Ltd. (ODX)	100.00	–	–	Enterprise services

*Codesignate is a 75.00%-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, which is domiciled in Indonesia, and AOC and ODX, which are domiciled in Singapore.

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 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 in 2016. This transaction has no effect on the carrying amounts of the Group's assets and liabilities, but has resulted in the 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%.

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.

Storm Technologies, Inc.

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.

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.

Art of Click Pte. Ltd.

On October 6, 2016, Xurpas signed a Share Purchase Agreement with Emmanuel Michael Jean Allix and Wavemaker Labs Pte. Ltd. (the "Sellers") for the acquisition of 100% stake in AOC 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 amended PFRS and improvements to PFRS which were adopted beginning January 1, 2018. 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 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*



- PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

The effect of adopting PFRS 9 as at January 1, 2018 was as follows:

	As previously reported December 31, 2017	Reference	Adjustments	As restated January 1, 2018
AFS financial assets	₱153,053,079	(a)	(₱153,053,079)	₱-
Financial assets at FVOCI	-	(a)	380,000	380,000
Allowance for impairment losses	113,794,109	(b)	5,059,020	118,853,129
Retained earnings	322,730,858	(a), (b)	(113,487,143)	209,243,715
Net unrealized loss on AFS financial assets	(70,000)	(a)	70,000	-
Net unrealized loss on financial assets at FVOCI	-	(a)	(44,314,956)	(44,314,956)

The nature of these adjustments are described below:

a) *Classification and measurement*

Under PFRS 9, debt instruments are subsequently measured at FVPL, FVOCI or amortized cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

The assessment of the Group's business model was made at the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was based on the facts and circumstances at the initial recognition of the assets.

The following are the changes in the classification of the Group's financial assets:

- Cash, 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 previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.
- Quoted and unquoted equity investments previously classified as AFS financial assets are now classified and measured as financial assets at FVOCI. The Group elected to classify irrevocably its equity investments under this category as it intends to hold these investments for the foreseeable future. As a result of the reclassification, the Group remeasured these financial assets resulting in an increase in "Net unrealized loss on financial assets at FVOCI" of ₱44.31 million.
- Unquoted debt investments previously classified as AFS financial assets are now classified and measured as financial assets at FVPL. The Group elected to classify these



financial assets under this category since cash flows are not solely payments of principal and interest. As a result of the reclassification, the Group remeasured these financial assets resulting in a decrease in “Retained earnings” of ₱108.43 million.

The Group has not designated any financial liabilities at FVPL as of January 1, 2018. There are no changes in classification and measurement for the Group’s financial liabilities.

In summary, upon adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018:

PAS 39 Categories	Balances	PFRS 9 Measurement Categories		
		Fair value through profit or loss	Amortized cost	FVOCI
Loans and receivables				
Cash	₱215,254,510	₱–	₱215,254,510	₱–
Accounts and other receivables				
Trade receivables	933,361,381		933,361,381	–
Receivable from related parties	7,490,000	–	7,490,000	–
Others	13,449,238		13,449,238	–
AFS financial assets	159,053,079	108,428,123	–	50,624,956
Other current assets				
Refundable deposits	8,149,786	–	8,149,786	–
Other noncurrent assets				
Cash bond	65,485	–	65,485	–

b) Impairment

The adoption of PFRS 9 has fundamentally changed the Group’s accounting for impairment losses for financial assets by replacing PAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECL for all debt instruments not held at FVPL and contract assets.

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 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 cash in banks, receivable from related parties, other receivables, refundable deposits under other current assets, and cash bond under other noncurrent assets, 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 twelve (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).

The adoption of PFRS 9 ECL resulted in an increase in “Allowance for impairment loss” and decrease in “Retained earnings” as of January 1, 2018 amounting to ₱5.06 million as transition adjustment.



- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18 and related Interpretations.

The effect of adopting PFRS 15 as at January 1, 2018 was as follows:

	As previously reported December 31, 2017	Reference	Adjustments	As restated January 1, 2018
Trade receivables	₱933,361,381	b	(₱3,590,442)	₱929,770,939
Contract assets	–	b	1,212,926	1,212,926
Unearned revenues	37,830,783	a	(37,830,783)	–
Contract liabilities	–	a, b, c	39,509,597	39,509,597
Retained earnings	322,730,858	b, c	(4,056,330)	318,674,528

The nature of the adjustments are described below:

a) Advances from customers for HR services

Before the adoption of PFRS 15, unearned revenue was recognized for the amounts received from clients from which the Group will use to finance goods to be purchased by the client's employees.

Under PFRS 15, this was reclassified as contract liabilities. As a result of the adoption, the Group recognized "Contract liabilities" amounting to ₱37.83 million from "Unearned revenues".

b) Upfront fees and warranty fees for key platform maintenance and development services

As part of the contract price, the Group charges its customers with upfront fees and warranty fees in connection to its enterprise services. Before the adoption of PFRS 15, revenue from upfront fees is recognized outright, usually at the commencement of the contract, while revenue from warranty fees is recognized only upon expiration of the warranty period in accordance with the service agreement.



Under PFRS 15, collection of upfront fees generally does not result in the transfer of a promised service to the customer and only represent an advance payment for future services, thus, revenue from upfront fees should be recognized over time based on the completion of proportion of work done under the output method. Meanwhile, warranties deemed as assurance-type do not constitute a performance obligation separate from the main enterprise services being rendered and thus, should also be recognized over time based on the completion of proportion of work done under the output method. As a result of the adoption, the Group recognized “Contract assets” for the warranty fees amounting to ₱1.21 million which resulted in an increase in “Retained earnings” for the same amount. Further, the Group recognized “Contract liabilities” for the upfront fees amounting to ₱0.72 million, which resulted in a decrease in “Retained earnings” for the same amount. The Group also adjusted its “Trade receivables” for the services not yet rendered amounting to ₱3.59 million which resulted in a decrease in “Retained earnings” for the same amount.

c) *Fees for implementation of and subscription to “Flex benefits system”*

For Human Resource (HR) consultancy services, the Group charges its customers with implementation fee and regular subscription fees for the use of its “flex benefits system”. Before the adoption of PFRS 15, revenue from implementation fee is recognized outright, usually at the commencement of the contract, while revenue from subscription fee is recognized over a period of time.

Under PFRS 15, similar to upfront fees, collection of implementation fees generally does not result in the transfer of a promised service to the customer and only represent an advance payment for future services. Further, the implementation of the “flex benefits system” and the subscription by the clients to the platform merely forms part of a single performance obligation satisfied over a period of time. Hence, revenue from both implementation and subscription fees should be allocated over the subscription period. As a result of the adoption, the Group recognized “Contract liabilities” amounting to ₱0.96 million and a decrease in “Retained earnings” for the same amount.

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted:

Consolidated statement of comprehensive income

	For the year ended December 31, 2018		
	PFRS 15	Previous PFRS	Increase (decrease)
Service income	₱1,153,342,488	₱1,150,406,848	₱2,935,640
Provision for (benefit from) income tax	144,506,949	144,485,839	(21,110)
Net income	(₱811,641,249)	(₱814,597,999)	₱2,956,750

Consolidated statement of financial position

	As of December 31, 2018		
	PFRS 15	Previous PFRS	Increase (decrease)
ASSETS			
Current Assets			
Accounts and other receivables	₱530,636,685	₱544,378,898	(₱13,742,213)
Contract assets	9,748,084	–	9,748,084
	540,384,769	544,378,898	(3,994,129)

(Forward)



	As of December 31, 2018		
	PFRS 15	Previous PFRS	Increase (decrease)
Noncurrent Asset			
Deferred tax assets - net	₱ 14,186,692	₱24,162,451	(₱9,975,759)
	₱554,571,461	₱568,541,349	(₱13,969,888)
LIABILITIES AND EQUITY			
Current Liabilities			
Contract liabilities	₱44,498,497	₱-	₱44,498,497
Income tax payable	2,190,193	12,187,062	(9,996,869)
Other current liabilities	63,753,036	111,124,972	(47,371,936)
	110,441,726	123,312,034	(12,870,308)
Equity			
Deficit	(451,139,709)	(450,040,129)	(1,099,580)
	(₱340,697,983)	(₱326,728,095)	(₱13,969,888)

The adoption of PFRS 15 did not have a material impact on the Group's consolidated statement of cash flows.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- 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 OCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that 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.

- 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 be also 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.

The Group is currently assessing the impact of adopting PFRS 16.

- 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 benefit 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.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.



The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

- 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 periods beginning on or after January 1, 2019, with early application permitted.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.



The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is 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 27).

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 effective January 1, 2018

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.

Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018

Financial Instruments

Date of recognition

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



Initial recognition of financial instrument

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

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

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

As at December 31, 2017, the Group's financial instruments are of the nature of loans and receivables, AFS financial assets, financial liabilities at FVPL and other financial liabilities.

'Day 1' difference

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

Financial assets at FVPL

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

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

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

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



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

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

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

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to “Cash” and “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 in the consolidated statement of financial position.

After initial measurement, accounts and other receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in “Interest income” account in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss as “Provision for impairment losses” under “General and administrative expenses” account. Accounts and other receivables are included in current assets if maturity is within 12 months from the reporting date.

AFS financial assets

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

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in changes in equity is recognized as “Other income” in profit or loss. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis.



Interest earned on holding AFS financial assets is reported as interest income using the EIR. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. The losses arising from impairment of such financial assets are recognized as “Provision for impairment losses” in profit or loss.

The Group’s AFS financial assets pertain to convertible notes and quoted and unquoted equity securities (see Note 7).

Other financial liabilities

Other financial liabilities pertain to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group’s “Accounts and other payables” (except “Deferred output VAT”, “Taxes payable” and provision relating to PSA and statutory payables included as “Others”), “Loans payable”, “Payable to former shareholders of a subsidiary” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit



or loss. Interest income continues to be recognized based on the original EIR of the asset. Accounts and other receivables, together with associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

AFS financial assets

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and



rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

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

Prior to adoption of PFRS 15, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any.

Upon adoption of PFRS 15, 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 off set 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 28 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 31 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 statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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



Judgments

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

The Group determined that it exercises significant influence over its associates (see Note 9) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

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 uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Evaluating impairment of goodwill, intangible assets with indefinite useful lives and investments in associates

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 growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) margins, working capital and capital expenditures used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite 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 Group recognized impairment loss on goodwill amounting to ₱144.86 million in 2018 based on an assessment of recoverability of goodwill using the DCF model (see Note 11).

The carrying values of goodwill and customer relationship follow:

	2018	2017
Goodwill (Notes 11 and 23)	₱2,399,762,153	₱2,544,617,520
Customer relationship (Notes 11 and 23)	1,077,809,700	1,077,809,700
	₱3,477,571,853	₱3,622,427,220

Investment in associate is tested for impairment when circumstances indicate that the carrying value may be impaired.

There was no impairment loss recognized in 2018 and 2017 for the Group's investments in associates. The carrying values of investments in associates amounted to ₱456.00 million and ₱515.66 million as of December 31, 2018 and 2017, respectively (see Note 9).

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.



The Group recognized service income subject to percentage of completion amounting to ₱125.44 million and ₱107.31 million in 2018 and 2017, respectively.

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 (see Notes 12 and 30).

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.

As of December 31, 2018 and 2017, allowance for impairment losses on accounts and other receivables amounted to ₱265.02 million and ₱113.79 million, respectively (see Notes 5 and 27).

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.

The Group recognized gross deferred tax assets amounting to ₱18.46 million and ₱117.91 million as at December 31, 2018 and 2017, respectively (see Note 21).

The Group did not recognize deferred tax assets on deductible temporary differences and NOLCO amounting to ₱719.06 million and ₱48.31 million as at December 31, 2018 and 2017, respectively (see Note 21).

4. Cash

This account consists of:

	2018	2017
Cash on hand	₱217,029	₱385,595
Cash in banks	177,179,158	214,868,915
	₱177,396,187	₱215,254,510



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

Interest income earned from cash in banks amounted to ₱0.44 million, ₱1.59 million and ₱3.03 million in 2018, 2017 and 2016, respectively (see Note 18).

5. Accounts and Other Receivables

This account consists of:

	2018	2017
Trade receivables	₱771,395,524	₱933,361,381
Advances to employees	4,764,040	5,159,944
Receivable from related parties (Note 20)	5,808,461	7,490,000
Others	13,693,032	13,449,238
	795,661,057	959,460,563
Less: Allowance for impairment losses	265,024,372	113,794,109
	₱530,636,685	₱845,666,454

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, GTI, and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of December 31, 2018, and 2017, the Group's receivables from GTI amounted to ₱279.13 million and ₱540.96 million, respectively, which comprise 36% and 58%, respectively, of the total gross trade receivables (see Note 27).

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

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

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:

	2018	2017
Balance at beginning, as previously reported	₱113,794,109	₱1,883,443
Adjustment as a result of PFRS 9 adoption (Note 2)	5,059,020	-
Balance at beginning, as restated	118,853,129	1,883,443
Provisions (Note 17)	166,083,098	106,539,273
Write-off	(16,053,400)	(3,296,697)
Recovery	454,785	-
Translation adjustments	(4,313,240)	8,668,090
	₱265,024,372	₱113,794,109

6. Contract Balances

Contract assets and liabilities

This account consists of:

	2018
Contract assets (Note 2)	₱9,748,084
Contract liabilities (Note 2)	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.

The amount of revenue recognized from amounts included in contract liabilities at the beginning of the year amounted to ₱28.20 million.

7. Financial Assets at Fair Value through Other Comprehensive Income and Available-for-sale Financial Assets

The 2017 balance is presented under AFS. Upon adoption of PFRS 9, the quoted and unquoted equity investments were reclassified as financial assets at FVOCI while the unquoted debt investments were reclassified as financial assets at FVPL in the consolidated statements of financial position.

This account consists of:

	2018	2017
Balance at beginning of year, as previously reported	₱159,053,079	₱152,973,079
Adjustment as a result of PFRS 9 adoption (Note 2)	(152,673,079)	-
Balance at beginning of year, as restated	6,380,000	152,973,079
Additions during the year	-	6,000,000
Collections during the year	(6,000,000)	
Unrealized gain on financial assets at FVOCI	95,000	80,000
	₱475,000	₱159,053,079

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

	2018	2017
Balance at beginning of year, as previously reported	(₱70,000)	(₱150,000)
Adjustment as result of PFRS 9 adoption (Note 2)	(44,244,956)	-
Balance at beginning of year, as restated	(44,314,956)	(150,000)
Unrealized gain on financial assets at FVOCI	95,000	80,000
Balance at end of year	(₱44,219,956)	(₱70,000)

Unrealized gain 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 and AFS financial assets as of December 31, 2018 and 2017 are as follow:

	2018	2017
Quoted shares		
Club Punta Fuego	₱475,000	₱380,000
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

(Forward)



	2018	2017
Unquoted debt investments		
MatchMe Pte. Ltd.	P-	P52,495,000
Altitude Games Pte. Ltd.	-	28,856,000
Einsights Pte. Ltd.	-	23,475,000
Social Light Inc.	-	6,000,000
Pico Candy Pte. Ltd.	-	3,602,123
	-	114,428,123
	P475,000	P159,053,079

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 (see Note 27).

Quoted equity investments

Quoted equity instruments consist of investment in golf club shares.

Unquoted equity investments

In April 2015, the Group acquired 666,666 shares of Series A Preferred Stock of Zowdow Inc. (“Zowdow”) at a purchase price of \$1.50 per share for a total investment of US\$999,999 or P44.24 million. As at December 31, 2018 and 2017, the Group holds a 3.56% ownership of Zowdow on a fully-diluted basis.

Upon adoption of PFRS 9, the Group recognized unrealized loss amounting to P44.24 million as of January 1, 2018.

Unquoted debt investments

MatchMe Pte. Ltd.

On November 2, 2015, the Group acquired a convertible promissory note for US\$300,000 (P14.06 million) issued by MatchMe Pte. Ltd. (“MatchMe”), an associate of the Group based in Singapore (see Note 9). On February 11, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$500,000 (P23.89 million). On October 7, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$300,000 (P14.55 million). Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to P52.50 million which resulted in a decrease in retained earnings as of January 1, 2018.

Altitude Games Pte. Ltd.

On January 19, 2016, the Group purchased a convertible promissory note for US\$400,000 (P19.26 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 (P9.60 million) issued by Altitude Games.

Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to P28.86 million which resulted in a decrease in retained earnings as of January 1, 2018.

Einsights Pte. Ltd.

On September 30, 2015, the Group purchased a convertible promissory note for US\$500,000 (P23.48 million) issued by “Einsights”, a Singapore-based technology solutions provider with operations in Singapore, Vietnam, Hong Kong, India, Australia, Canada and Switzerland.

Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to P23.48 million which resulted in a decrease in retained earnings as of January 1, 2018.



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.

On August 15, 2018, the Group collected ₱6.00 million from Social Light as settlement of the convertible promissory note.

Pico Candy Pte. Ltd.

In August 2013, the Group invested in Pico Candy Pte. Ltd.’s (“Pico Candy”) convertible bonds amounting to SG\$0.10 million (₱3.60 million). Pico Candy operates a digital sticker distribution platform. It was founded in 2013 and is based in Singapore.

Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to ₱3.60 million which resulted in a decrease in retained earnings as of January 1, 2018.

8. **Other Current Assets**

This account consists of:

	2018	2017
Creditable withholding tax	₱18,176,998	₱10,110,652
Input VAT	13,740,143	14,671,997
Refundable deposits	11,437,282	8,149,786
Prepaid expenses	10,219,745	17,868,195
Deferred input VAT	3,494,984	6,895,163
Inventories	832,285	248,136
	₱57,901,437	₱57,943,929

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 Group by its suppliers for the acquisition of goods and services.

Refundable deposits pertain to security deposit made for performance bond and rent which will be received within one year.

Prepaid expenses mainly pertain to advances to suppliers, 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. Cost of goods sold recognized amounted to ₱69.73 million, ₱81.01 million and ₱41.82 million in 2018, 2017 and 2016, respectively.



9. Investments in Associates

This account consists of:

	2018	2017
Cost		
Balance at beginning of year	P575,584,063	P575,584,063
Additions during the year	1,977,018	-
Balance at end of year	577,561,081	575,584,063
Equity in net loss during the year		
Balance at beginning of year	(80,102,968)	(43,381,613)
Share in net losses during the year	(52,988,467)	(36,721,355)
Balance at end of year	(133,091,435)	(80,102,968)
Cumulative translation adjustment		
Balance at beginning of year	P20,181,846	P17,653,295
Movement during the year	(8,656,022)	2,528,551
Balance at end of year	11,525,824	20,181,846
	P455,995,470	P515,662,941

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	
	2018	2017	2018	2017
Micro Benefits Limited	23.53%	23.53%	P377,307,980	P427,067,861
MatchMe Pte. Ltd.	29.10	28.59	43,709,443	51,668,837
Altitude Games Pte. Ltd.	21.78	21.78	24,339,262	26,327,413
PT Sembilan Digital Investama	49.00	49.00	10,638,785	10,506,945
Altitude Games Inc.	21.17	21.17	-	91,885
			P455,995,470	P515,662,941

Micro Benefits Limited

On March 9, 2016, the Group 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.

Micro Benefit's registered office address is at 11th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong.

MatchMe Pte. Ltd.

On March 30, 2015, the Group acquired 1,000,000 ordinary shares of MatchMe, an international game development company based in Singapore, for a total consideration amounting to P60.47 million.

In 2016, MatchMe issued 325,385 common shares to various individuals which resulted in the decrease in the Group ownership interest from 31.52% to 28.59%.

In 2018, MatchMe issued 1,547,729 ordinary shares worth US\$0.079 per share or a total of



US\$122,944. The Group subscribed to 467,820 ordinary shares for a total of US\$37,161 or ₱1,977,018 resulting in an increase in percentage ownership from 28.59% to 29.10%.

MatchMe’s registered office address is at 100 Cecil Street #10-01/002 the Globe, Singapore.

Altitude Games Pte. Ltd.

As at December 31, 2018 and 2017, the Group owns 21.78% ownership interest in Altitude Games. The Group acquired a total of 24.69 million shares with par value of US\$0.01 per share for a total consideration of US\$740,800 or US\$0.03 per share.

Altitude Game’s registered office address is at 16 Raffles Quay, #33-03, Hong Leong Building, Singapore.

PT Sembilan Digital Investama

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

SDI’s registered office address is at Jl. Pos Pengumben Raya No. 01 RT 010 RW 03, Kel Srengseng, Jakarta Barat.

Altitude Games Inc.

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

Altitude Philippine’s registered office address is at Unit A51 5th Floor Zeta II Bldg., Salcedo St. Legazpi Village, Makati City.

As of December 31, 2018, and 2017, there are no capital commitments relating to the Group’s interests in its associates.

The Group considers an associate with material interest if its net assets exceed 5% of its total consolidated net assets 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 Group’s ability to use assets and settle liabilities.

Following is the significant financial information of the associate with material interest:

Micro Benefits

	2018	2017
Current assets	₱47,366,392	₱118,405,999
Noncurrent assets	90,497,755	125,783,623
Current liabilities	(36,564,334)	(6,757,117)
Noncurrent liabilities	(439,791,003)	(364,449,487)
Total equity	(338,491,190)	(127,016,982)
Proportion of Group’s ownership	23.53%	23.53%
Group’s share in identifiable net assets	(79,646,977)	(29,887,096)
Goodwill and changes in fair value of net assets	456,954,957	456,954,957
Carrying amount of the investment	₱377,307,980	₱427,067,861



No dividends were received in 2018 and 2017.

	2018	2017
Total revenue	₱85,040,814	₱75,965,086
Total expenses	262,009,977	215,879,654
Net loss/ Total comprehensive loss	(176,969,163)	(139,914,568)
Group's share in net loss/ total comprehensive loss for the year	(41,640,844)	(32,921,898)

Aggregate financial information on associates with immaterial interest is as follows:

	2018	2017
Carrying amount	₱78,687,490	₱88,595,080
Group's share of net losses for the year	(11,347,622)	(3,799,457)
Group's share in total comprehensive loss	(11,347,622)	(3,799,457)

In 2018 and 2017, the Group performed impairment testing using a discounted cash flow analysis to determine value-in-use. Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital and growth rates.

- Discount rate*

The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the associates domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset beta of the associate. In 2018 and 2017, management assumed discount rates of 11.23% to 17.66% and 11.00 to 13.87%, respectively.
- Growth rate*

Average growth rates in revenues are based on the Group's expectation of market developments and the changes in the environment in which it operates. The Group uses revenue growth rates based on past historical performance as well as expectations on the results of its strategies. On the other hand, the perpetual growth rate used to compute for the terminal value is based on the forecasted long-term growth of real gross domestic product (GDP) of the economy in which the business operates. In 2018 and 2017, management assumed average growth rates in revenues of 5.00% to 42.94% and 5.00% to 48.48%, respectively, and terminal growth rates of 3.00 to 5.00%.

There was no impairment loss recognized in 2018 and 2017 for the Group's investments in associates.



10. Property and Equipment

Rollforward of this account is as follows:

December 31, 2018

Cost	Transportation Equipment		Office Equipment		IT Equipment		Furniture and Fixtures		Leasehold Improvements		Leased Asset		Total
At beginning of year	₱120,536	₱11,012,103	₱43,599,878	₱12,326,671	₱60,034,040	₱4,967,610	₱132,060,838						
Additions	-	1,192,186	14,582,231	56,572	2,523,357	-	18,354,346						
Retirements and disposals	-	(1,773,570)	(25,952,487)	(1,472,458)	(1,273,231)	(963,070)	(31,434,816)						
Translation adjustments	-	4,808	31,105	4,119	-	-	40,032						
At end of year	120,536	10,435,527	32,260,727	10,914,904	61,284,166	4,004,540	119,020,400						
Accumulated Depreciation and Amortization													
At beginning of year	120,536	8,698,118	14,984,208	6,657,036	23,089,260	2,366,049	55,915,207						
Depreciation and amortization (Notes 16 and 17)	-	2,113,270	14,682,113	2,813,326	11,540,941	963,976	32,113,626						
Retirements and disposals	-	(1,572,343)	(23,312,761)	(1,397,818)	(1,273,231)	(986,223)	(28,542,376)						
Translation adjustments	-	2,429	7,629	3,088	-	-	13,146						
At end of year	120,536	9,241,474	6,361,189	8,075,632	33,356,970	2,343,802	59,499,603						
Net Book Value	₱-	₱1,194,053	₱25,899,538	₱2,839,272	₱27,927,196	₱1,660,738	₱59,520,797						

December 31, 2017

Cost	Transportation Equipment		Office Equipment		IT Equipment		Furniture and Fixtures		Leasehold Improvements		Leased Asset		Total
At beginning of year	₱3,696,444	₱8,515,567	₱26,790,279	₱11,373,737	₱55,704,738	₱4,667,410	₱110,748,175						
Additions	-	3,074,609	18,027,657	952,160	4,329,302	1,112,000	27,495,728						
Retirements and disposals	(3,575,908)	(587,610)	(1,278,425)	(9,880)	-	(811,800)	(6,263,623)						
Translation adjustments	-	9,537	60,367	10,654	-	-	80,558						
At end of year	120,536	11,012,103	43,599,878	12,326,671	60,034,040	4,967,610	132,060,838						
Accumulated Depreciation and Amortization													
At beginning of year	3,658,040	7,242,377	2,543,175	3,741,228	10,656,937	2,378,655	30,220,412						
Depreciation and amortization (Notes 16 and 17)	4,923	2,035,651	13,569,232	2,915,983	12,432,323	636,835	31,594,947						
Retirements and disposals	(3,542,427)	(587,610)	(11,582,664)	(9,880)	-	(649,441)	(5,947,622)						
Translation adjustments	-	7,700	30,065	9,705	-	-	47,470						
At end of year	120,536	8,698,118	14,984,208	6,657,036	23,089,260	2,366,049	55,915,207						
Net Book Value	₱-	₱2,313,985	₱28,615,670	₱5,669,635	₱36,944,780	₱2,601,561	₱76,145,631						



Depreciation and amortization for the years ended December 31, 2018, 2017 and 2016 are charged as follows:

	2018	2017	2016
Cost of services (Note 16)	₱2,240,598	₱863,862	₱1,064,453
General and administrative expenses (Note 17)	29,873,028	30,731,085	25,213,228
	₱32,113,626	₱31,594,947	₱26,277,681

The Group retired and disposed property and equipment with cost amounting to ₱31.43 million resulting to a gain of ₱1.04 million in 2018, ₱6.26 million resulting to a loss of ₱0.32 million in 2017 and ₱14.07 million resulting to a gain of ₱0.62 million in 2016 recognized under “Other income (charges) - net” account (see Note 18).

There were no capitalized interest as at December 31, 2018 and 2017.

There were no property and equipment pledged as collateral as at December 31, 2018 and 2017.

11. Intangible Assets

This account consists of:

December 31, 2018

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Crypto-currencies	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 16)	-	-	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
Impairment (Note 17)	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

December 31, 2017

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Total
Cost					
At beginning of year	₱2,544,617,520	₱1,077,809,700	₱187,074,790	₱17,378,812	₱3,826,880,822
Additions during the year	-	-	10,571,807	-	10,571,807
At end of year	2,544,617,520	1,077,809,700	197,646,597	17,378,812	3,837,452,629
Accumulated amortization					
At beginning of year	-	-	24,563,721	3,627,929	28,191,650
Amortization (Note 16)	-	-	32,898,186	2,482,687	35,380,873
At end of year	-	-	57,461,907	6,110,616	63,572,523
Net Book Value	₱2,544,617,520	₱1,077,809,700	₱140,184,690	₱11,268,196	₱3,773,880,106



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 December 31, 2018.

The fair value of cryptocurrencies was determined using quoted market prices in active markets categorized under Level 1 of fair value hierarchy. As at December 31, 2018, the fair value of Bitcoin is valued at USD3,742.70 per unit. For the year ended December 31, 2018, unrealized loss amounting to Php2.55 million was recognized as a result of revaluation of cryptocurrencies.

In 2018, the Group sold cryptocurrencies with cost amounting to ₱176.53 million. The Group recognized "Loss from sale of cryptocurrencies" and "Foreign exchange gain" under "Other income (charges)" amounting to ₱4.99 million and ₱2.47 million, respectively (see Note 18).

The amortization expense of intangible assets recognized in "Depreciation and amortization" under "Cost of services" in the consolidated statements of comprehensive income amounted to ₱37.07 million and ₱35.38 million in December 31, 2018 and 2017, respectively (see Note 16).

Impairment testing of goodwill and customer relationships with indefinite useful life

Goodwill and customer relationship acquired through business combinations were reviewed to look for any indication that an asset may be impaired. The Group used a discounted cash flow analysis to determine value-in-use. Value-in-use reflects an estimate of the future cash flows the Group expects to derive from the cash-generating unit, expectations about possible variations in the amount or timing of those future cash flows, the time value of money and the price for bearing the uncertainty inherent in the asset. The calculation of the value-in-use is based on reasonable and supportable assumptions, the most recent budgets and forecasts approved by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for market development.

Key Assumptions Used in Value-in-Use Calculations

Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital, growth rates, EBITDA margins, working capital and capital expenditure.

- *Discount rate*

The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash



flows are based on risk-free interest rates in the relevant markets where the subsidiaries are domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas of these subsidiaries. In 2018 and 2017, management assumed discount rates of 12.47% to 14.76% and 14.01% to 20.28%, respectively.

- *Growth rate*

Average growth rates in revenues are based on the Group's expectation of market developments and the changes in the environment in which it operates. The Group uses revenue growth rates based on past historical performance as well as expectations on the results of its strategies. On the other hand, the perpetual growth rate used to compute for the terminal value is based on the forecasted long-term growth of real gross domestic product (GDP) of the economy in which the business operates. In 2018 and 2017, management assumed average growth rates in revenues of 19.00% to 94.00% and 13.00% to 45.22%, respectively, and terminal growth rates of 3.00% to 6.00%.

- *EBITDA margin*

The EBITDA margin represents the operating margin before depreciation and amortization and is estimated based on the margin achieved in the period immediately before the budget period and on estimated future development in the market. Committed operational efficiency programs are taken into consideration. In 2018 and 2017, management assumed EBITDA margin of 10.00% to 48.00% and 16.00% to 64.08%, respectively.

- *Capital expenditure*

In computing the value-in-use, estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. Capital expenditures that improve or enhance the asset's performance therefore are not included. In 2018 and 2017, percentage of capital expenditures to revenues ranges from 0.12% to 1.91% and 0.02% to 0.67%, respectively.

Management recognizes that unfavorable conditions can materially affect the assumptions used in the determination of value-in-use. An increase of 10.5% to over 100.0% discount rates, or a reduction of growth rates of 20.0% to over 100.0% would give a value-in-use equal to the carrying amount of the cash generating units in 2018.

Impairment testing of goodwill

Goodwill acquired through business combinations pertain to the subsidiaries acquired in 2015 and 2016.

Allocation of goodwill to the CGUs is as follows:

	2018	2017
Art of Click Pte. Ltd.	₱1,711,953,363	₱1,856,808,730
Yondu, Inc. mobile consumer services (Yondu VAS)	334,937,958	334,937,958
Yondu, Inc. knowledge process outsourcing (Yondu BPO)	205,209,959	205,209,959
Storm Technologies, Inc.	134,161,688	134,161,688
Seer Technologies, Inc.	13,499,185	13,499,185
	₱2,399,762,153	₱2,544,617,520

The recoverable amounts have been based on value-in-use calculations using cash flow projections from forecasts provided by management covering a five-year period. Cash flows beyond the



five-year period are extrapolated using a steady growth rates of 3% to 6%.

In 2018, based on the assessment of AOC's value-in-use compared to its net asset's carrying amount including goodwill, the Group recognized impairment loss amounting to ₱144.86 million (see Note 17). No impairment loss was recognized in 2017 for the goodwill arising from the business combinations.

Impairment testing of customer relationships

The recoverable amount of customer relationships was determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five-year period. The pre-tax discount rate applied to the cash-flow projections is 14.80% and 16.9% in 2018 and 2017, respectively. The growth rate used to extrapolate the cash flows beyond the five-year period is 6%. The growth rate is based on the long-term sustainable growth rates for the industry.

In 2018 and 2017, no impairment loss was recognized for the customer relationships.

12. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payables	₱179,196,897	₱218,584,771
Payable to related parties (Note 20)	104,026,002	102,534,280
Nontrade payable	55,364,501	-
Deferred output VAT	42,673,696	62,546,030
Accrued expenses	42,658,546	60,604,203
Taxes payable	14,869,140	29,000,225
Others	215,733,365	19,838,913
	₱654,522,147	₱493,108,422

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

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.

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

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

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

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 the Group, through ODX, with various investors for the sale of ODX tokens (see Note 30). These are noninterest-bearing and are normally settled within one year.



13. 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% in 2018 and 2017, respectively.

The rollforward analysis of this account follow:

	2018	2017
Balance at beginning of year	₱377,419,000	₱16,998,370
Availments of loans	317,741,455	407,419,000
Payment of loans	(336,418,974)	(46,998,370)
	₱358,741,481	₱377,419,000

Interest expense recognized in the consolidated statements of comprehensive income amounted to ₱25.20 million, ₱4.48 million and ₱1.49 million in 2018, 2017 and 2016, respectively (see Note 18).

Undrawn loan commitments amounted to ₱0.45 million and nil as of December 31, 2018 and 2017, respectively. There were no transaction costs and interest expenses capitalized in 2018 and 2017.

14. Other Current Liabilities

This account consists of:

	2018	2017
Dividends payable	₱63,163,332	₱38,152,639
Unearned revenues	-	37,830,783
Finance lease liability (Note 19)	589,704	1,188,930
	₱63,753,036	₱77,172,352

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

Unearned revenues pertain to amounts received from clients from which the Group will obtain funds to finance the goods purchased by the clients' employees. This account also includes advance payments made by customers and clients on which goods and services are yet to be delivered. Upon adoption of PFRS 15, unearned revenues are included in contract liabilities.

15. Service Income

Service income, amounting to ₱1,153.34 million, ₱2,009.55 million and ₱1,896.46 million in 2018, 2017 and 2016, respectively, pertain to revenues earned from mobile consumer products and services, mobile enterprise services and knowledge process outsourcing rendered by the Group to its major customer, GTI, and other telecommunication companies. Revenue from these segments are recognized at a point in time, except for revenues from Custom Development included under mobile enterprise services which are recognized over time.

In 2018, 2017 and 2016, the Group's revenue from GTI amounted to ₱604.90 million, ₱1,170.10 million and ₱1,315.22 million, respectively, which comprise approximately 52%, 58% and 69%, respectively, of the total service income of the Group.



16. Cost of Services

Cost of services consists of the following:

	2018	2017	2016
Salaries, wages and employee benefits	₱724,500,182	₱639,940,780	₱486,897,470
Outsourced services (Note 20)	143,928,756	463,381,883	368,534,252
Segment fee and network costs	43,255,632	71,145,105	97,065,281
Web hosting	41,078,249	50,553,473	47,846,951
Depreciation and amortization (Notes 10 and 11)	39,315,550	36,244,735	23,417,800
Royalty fees (Note 19)	31,033,114	81,309,693	48,444,694
Consultancy fees	14,938,560	8,605,350	6,496,179
Rent (Note 19)	6,474,325	11,228,412	8,383,837
Commissions	3,921,691	806,937	184,734
Utilities	514,309	1,887,804	6,016,390
Prizes and winnings	93,080	1,389,406	1,649,132
Seminar and trainings	—	215,284	37,940
Transportation and travel	—	—	3,169,465
Miscellaneous	13,820,571	6,705,642	3,751,474
	₱1,062,874,019	₱1,373,414,504	₱1,101,895,599

17. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Provision for impairment losses (Notes 5 and 11)	₱310,938,465	₱106,539,273	₱387,325
Salaries, wages and employee benefits	151,959,481	163,022,037	126,487,520
Rent (Note 19)	42,093,443	33,171,842	30,630,037
Professional fees	30,418,262	48,025,457	43,306,503
Depreciation and amortization (Note 10)	29,873,028	30,731,085	25,213,228
Marketing and promotions	20,039,431	16,310,353	5,049,347
Taxes and licenses	18,910,061	43,660,122	18,645,365
Outsourced services	15,271,403	19,214,959	10,422,401
Utilities	11,080,786	14,101,056	15,761,555
Seminars and trainings	9,791,573	10,112,674	3,538,530
Entertainment, amusement and recreation	9,318,601	10,186,164	14,072,398
Transportation and travels	9,247,485	12,921,436	12,448,990
Dues and subscriptions	6,990,692	8,366,593	8,665,080
Advertising	6,420,538	16,017,585	12,279,821
Supplies	3,210,261	5,543,696	7,799,226
Directors' fees	1,865,000	1,722,500	1,875,000
Repairs and maintenance	1,858,369	6,891,063	6,925,257
Insurance	1,628,628	2,006,292	1,021,230
Miscellaneous	20,128,870	24,072,768	10,198,483
	₱701,044,377	₱572,616,955	₱354,727,296



18. Other Income (Charges)

This account consists of:

	2018	2017	2016
Gain from expiration of liability for written put option (Note 23)	₱16,209,100	₱-	₱-
Other income	14,605,834	18,280,576	7,884,608
Interest income (Note 4)	444,430	1,588,435	3,025,253
Realized gain from redemption of financial assets at FVPL	-	2,216,289	4,836,415
Gain (loss) on retirement and disposal of property and equipment (Note 10)	1,041,683	(316,001)	619,451
Unrealized loss on revaluation of cryptocurrencies (Note 11)	(2,551,474)	-	-
Bank charges	(3,607,838)	(14,936,940)	(689,795)
Loss from sale of cryptocurrencies (Note 11)	(4,987,325)	-	-
Foreign exchange gains (losses)	(12,733,298)	(9,611,563)	6,389,803
Interest expense	(31,109,017)	(5,904,716)	(13,018,341)
	(22,687,905)	(8,683,920)	9,047,394
Other income (charges) subsequent to a business combination (Note 23)			
Waiver of deferred purchase consideration	-	364,012,055	-
Foreign exchange losses	-	(26,594,140)	(22,778,615)
Accretion of unamortized interest expense	-	(30,916,092)	-
Interest expense on payable to former shareholders of a subsidiary	-	(61,633,130)	(21,959,259)
Additional payments to a former shareholder of a subsidiary	-	(153,956,515)	-
	-	90,912,178	(44,737,874)
	(₱22,687,905)	₱82,228,258	(₱35,690,480)

Other income pertains to gain on curtailment, gain on reversal of payables and other miscellaneous income.

Interest expense consists of:

	2018	2017	2016
Interest on loans payable (Notes 13 and 20)	₱31,109,017	₱5,904,716	₱1,493,655
Amortization of discount on liability for written put option (Note 23)	-	-	11,524,686
	₱31,109,017	₱5,904,716	₱13,018,341



19. Agreements and Lease Commitments

Agreements with Licensors

The Group entered into various agreements with licensors for the use of and or distribution of the licensors' products and services as mobile content. Under these agreements, the Group pays the licensors a certain percentage of revenues earned from the use and distribution of licensors' products and services. The amounts arising from these agreements are recorded as "Royalty fees" under "Cost of services", and the related liability are recorded as "Accrued expenses" under "Accounts and other payables". In 2018, 2017 and 2016, royalty fees amounted to ₱31.03 million, ₱81.31 million and ₱48.44 million, respectively (see Note 16).

Finance Lease

The Group entered into a finance lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term of three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.90% to 1.42% in 2018 and 0.83% to 1.12% in 2017 and 2016, respectively.

Details of finance lease liability recognized as of December 31, 2018 and 2017 follow:

	2018	2017
Finance lease liabilities	₱615,092	₱1,794,643
Less: Noncurrent portion	25,388	605,713
Current portion (Note 14)	₱589,704	₱1,188,930

The present value of future minimum payments follows:

	2018	2017
Not later than one year	₱622,597	₱1,332,023
Later than one year and not later than five years	16,977	639,574
Total minimum lease payments	639,574	1,971,597
Less: Amounts representing finance charges	24,482	176,954
	₱615,092	₱1,794,643

Carrying amount of assets under the finance lease amounted to ₱1.66 million and ₱2.60 million as of December 31, 2018 and 2017, respectively. These are presented as "Leased asset" under "Property and equipment" (see Note 10).

Operating Lease

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

- a. The Parent Company entered into a noncancellable lease contract with Gervel, Inc. for office space for a period of three (3) years which commenced on April 1, 2014 and expired on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

In 2017, the Parent Company renewed this contract for a period of three (3) years which commenced on April 1, 2017 and will expire on March 21, 2020. The applicable rate per month is ₱0.27 million and a corresponding annual increase of 4%.



- b. The Parent Company renewed a noncancellable lease contract with Gervel, Inc. for the office space for a period of one (1) year and six (6) months which commenced on October 1, 2015 and expired on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

In 2017, the Parent Company renewed its contract for a period of three (3) years which commenced on April 1, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.29 million and a corresponding annual increase of 4%. The lease contract was pre-terminated through mutual agreement of the parties on March 30, 2019.

- c. In 2017, the Parent Company entered into a noncancellable lease contract with Gervel, Inc. for an office space for a period of two (2) years and four and a half (4.5) months which commenced on November 16, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.33 million. The lease contract may be renewed in writing by mutual agreement of the parties.
- d. Xeleb Technologies entered into a noncancellable lease agreement with TKS Holdings, Inc. for a period of two (2) years which commenced on May 1, 2015 and expired on April 30, 2017 for a monthly rental rate of ₱0.21 million for the first year and ₱0.23 million for the second year of lease.

In 2017, Xeleb Technologies renewed the lease agreement with TKS Holdings, Inc. for a period of one (1) year which commenced on May 1, 2017 and expired on April 30, 2018. The applicable monthly rate is ₱0.29 million for both office and parking rentals.

- e. In 2014, Storm entered into a noncancellable lease contract with CYG Trinkets Shop for a period of two (2) years which commenced from March 1, 2016 and expired on March 1, 2018. The applicable monthly rent amounts to ₱0.04 million.
- f. In 2014, Storm entered into a noncancellable lease contract with Kepwealth Property Phils., Inc. for the Storm's office situated in Cebu City for a period of two (2) years which commenced on December 1, 2014 and expired on November 30, 2016. The applicable lease rental on the first year amounted to ₱0.03 million per month and shall be increased by ten percent (10%) annually.
- g. In 2015, Storm entered into a cancellable lease contract with All Estate Realty Brokerage Inc. for a period of two (2) years which commenced on April 15, 2015 and expired on April 14, 2017. The lease contract may be renewed upon mutual agreement between the parties. Monthly rent applicable on the first year amounted to ₱0.05 million per month with 10% annual escalation rate on the second year.

In 2017, Storm renewed its lease contract for another year which commenced on April 15, 2017 and expired on April 14, 2018. Monthly rent amounted to ₱0.05 million.

In 2018, the lease contract was renewed for a period of one (1) year which commenced on April 15, 2018 and will expire on April 15, 2019.

- h. In 2016, Storm entered into a noncancellable lease contract with United Tristar Realty Corporation for a period of nine (9) months which commenced on April 1, 2016 and expired December 31, 2016. The lease contract may be renewed upon mutual agreement between the parties. In 2017, Storm renewed its lease contract for another 1 year which will commence on January 1, 2017 and expired on December 31, 2017. Monthly rent amounted to ₱0.05 million per month.



In 2018, the lease contract was renewed for a period of one (1) year which commenced on October 1, 2018 and will expire on September 30, 2019. The applicable rate per month is ₱0.07 million and a corresponding annual increase of 4%.

- i. In 2017, Storm entered into a cancellable lease contract with Richdale Resource Management Corporation for a period of one (1) year which commenced on February 10, 2017 and expired on February 8, 2018. Monthly rent applicable amounted to ₱0.05 million.

In 2018, the lease contract was renewed for a period of one (1) year which commenced on February 15, 2018 and will expire on February 14, 2019.

- j. In 2018, Storm entered into a cancellable agreement with North Lane Residences for a period of one (1) year which commenced on March 1, 2018 and will expire on February 29, 2019 with an applicable rental rate per month of ₱0.04 million.

- k. In 2018, Storm entered into a cancellable agreement with San Mateo Heights Realty Corporation for a period of three (3) months which commenced on January 2, 2018 and expired on March 31, 2018 with an applicable rental rate for three (3) months of ₱0.38 million.

- l. In 2013, Seer executed a lease contract with Super Prime Holdings Inc. for a lease term of three (3) years which commenced November 15, 2013 and expired on November 14, 2016. The applicable lease rate amounted to ₱0.15 million per month on the first year subject to 6% annual escalation rate.

- m. In 2016, Seer executed a noncancellable lease contract with TKS Holdings, Inc. for a period of one (1) year which commenced on November 15, 2016 and expired on November 14, 2017. The applicable lease rate amounted to ₱0.20 million per month. The lease contract may be renewed upon agreement between the parties.

In 2017, Seer renewed its lease contract on office units and parking slots for another year which commenced on November 15, 2017 and expired on November 14, 2018. The applicable monthly rate per month amounted to ₱0.22 million for both office units and parking slots.

- n. In 2014, Codesignate entered into a lease agreement with Jecoprime Development Corporation for a period of two (2) years which commenced December 12, 2014 and expired on December 11, 2016. The applicable base rent amounted to ₱0.07 million per month.
- o. In 2014, Yondu entered into a noncancellable lease contract with Panorama Development Corporation for its new office. The term of the lease is seven (7) years, which commenced on November 1, 2014 and will expire on October 31, 2021. The applicable rate per month for the first year is ₱1.02 million and a corresponding increase of 5% on the second year of lease.
- p. In 2015, Yondu entered into a cancellable lease agreement with Septus, Inc. for a period of five months which commenced on July 27, 2015. Yondu has extended its lease until second quarter of 2016. The applicable rate is ₱0.49 million.
- q. In 2016, Yondu entered into a noncancellable lease contract with Panorama Development Corporation. The term of the lease is five and a half (5.5) years, which commenced on April 16, 2016 and will expire on October 31, 2021. The applicable rate per month for the first year is ₱0.80 million and a corresponding increase of 5% in the succeeding years.



- r. In 2016, AOC entered into a noncancellable lease contract with Chan Pek Har & Loh Pek Har & Loh Lik Hwa. The term of the lease is two (2) years, which commenced on July 20, 2015 and expired on July 19, 2017. The applicable rate per month is SG\$5,800.

In 2017, AOC renewed its lease contract for one (1) year from July 20, 2017 to July 19, 2018 at a monthly rental of SG\$5,465.

- s. In 2018, AOC entered into a noncancellable lease agreement with Ong Soh Than for a period of one (1) year which commenced on July 23, 2018 and will expire on July 22, 2019 with an applicable rental rate per month of SG\$4,850.

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to P\$48.57 million, P\$44.40 million and P\$39.01 million in 2018, 2017 and 2016, respectively (see Notes 16 and 17).

As at December 31, 2018 and 2017, the future minimum lease payments under noncancellable operating leases follow:

	2018	2017
Within one year	P\$40,023,138	P\$39,559,799
After one year but not more than 5 years	60,706,688	98,505,656
	P\$100,729,826	P\$138,065,455

20. Related Party Transactions

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

Terms and conditions of transactions with related parties

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

Details of transactions with related parties and their outstanding payables to a related party as at December 31, 2018 and 2017 follow:

	Terms	Conditions	Amount/Volume		Outstanding Balance			
			2018	2017	2018		2017	
					Receivable	Payable	Receivable	Payable
Associates								
Cost of services (a-c)	Noninterest-bearing	Unsecured	P\$373,198	P\$23,156,366	P-	P\$19,208	P-	P\$4,724,298
Advances (d, e)	Noninterest-bearing	Unsecured, no impairment	550,461	4,990,000	5,808,461	-	4,990,000	-
			923,659	28,146,366	5,808,461	19,208	4,990,000	4,724,298
Stockholders								
Payable to directors and officers (a)	Interest-bearing	Unsecured	5,906,056	98,564,572	-	102,421,544	-	97,809,982

(Forward)



	Terms	Conditions	Amount/Volume		Outstanding Balance			
			2018	2017	2018		2017	
					Receivable	Payable	Receivable	Payable
Payable to directors and officers (b) Advances (c)	Noninterest-bearing One year; noninterest-bearing	Unsecured Unsecured, no impairment	₱1,865,000 -	₱1,722,500 2,500,000	₱- -	₱1,585,250 -	₱- 2,500,000	₱- -
			7,771,056	102,787,072	-	104,006,794	2,500,000	97,809,982
					₱5,808,461	₱104,026,002	₱7,490,000	₱102,534,280

Associates:

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

In 2018, 2017 and 2016, the Group recognized “Outsourced services” under “Cost of services” amounting to nil, ₱7.42 million and ₱4.30 million, respectively, in relation to the aforementioned transaction. As at December 31, 2018 and 2017, payable to Altitude Games amounted to ₱0.19 million and ₱3.72 million, respectively.

- b. In February 2016, the Group entered into a service agreement with Altitude Philippines, wherein the latter will render mobile content and application services in favor of the Group. In return, the Group shall pay Altitude Philippines a certain percentage of the revenues generated from such applications.

Total outsourced services charged under “Cost of services” account in the consolidated statements of comprehensive income amounted to nil, ₱1.88 million and ₱5.10 million in 2018, 2017 and 2016, respectively, and outstanding payables amounted to nil and ₱1.01 million as of December 31, 2018 and 2017, respectively.

- c. In 2016, the Parent Company was granted exclusive right to distribute “Globe with Friends,” a game developed by MatchMe, an associate. As agreed by the parties, the Parent Company shall pay MatchMe a certain percentage of the revenues earned from the said game.

For the years ended December 31, 2018, 2017 and 2016, the Group recognized “Outsourced services” under “Cost of services” amounting to ₱0.37 million, ₱13.86 million and ₱2.70 million, respectively. There were no outstanding payables to MatchMe as of December 31, 2018 and 2017.

- d. 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 of December 31, 2018, and 2017, receivable from Altitude Games amounted to ₱5.26 million and ₱4.99 million, respectively.

- e. In 2018, the Parent Company made payments on behalf of SDI for its outsourced services amounting to ₱0.55 million, which remained outstanding as of December 31, 2018.

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 loan is due and demandable. For the years ended December 31, 2018 and 2017, the Group recognized interest expense amounting to ₱5.91 million and ₱1.42 million, respectively, under “Other income (charges)” in its consolidated statements of comprehensive income (see Note 18). As at



December 31, 2018 and 2017, outstanding loans and interest payable amounted to ₱100.22 million and ₱2.20 million, respectively, and ₱97.15 million and ₱0.66 million, respectively.

- b. Payable to directors and officers also pertain to directors' fees amounting to ₱1.87 million and ₱1.72 million and nil in 2018, 2017 and 2016, respectively. Outstanding payable amounted to ₱1.59 million and nil as at December 31, 2018 and 2017, respectively.
- c. Advances to stockholders pertain to cash advances for operational and corporate-related expenses subject to future liquidation. These are noninterest-bearing and are due and demandable.

Key management compensation

Compensation of key management personnel amounted to ₱97.10 million, ₱95.83 million and ₱41.96 million in 2018, 2017 and 2016, respectively.

Compensation of key management personnel by benefit type follows:

	2018	2017	2016
Short-term employee benefits	₱91,986,269	₱90,929,092	₱37,761,033
Post-employment benefits	5,118,520	4,896,785	4,200,558
	₱97,104,789	₱95,825,877	₱41,961,591

21. Income Taxes

Provision for income tax for the years ended December 31, 2018, 2017 and 2016 consists of the following:

	2018	2017	2016
Current	₱52,065,923	₱81,542,409	₱152,767,452
Final	43,421	123,219	572,968
Deferred	92,397,605	(62,198,529)	(39,071,653)
	₱144,506,949	₱19,467,099	₱114,268,767

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

Net deferred tax assets:

	2018	2017
Deferred tax assets on:		
NOLCO	₱6,781,210	₱36,615,958
Allowance for doubtful accounts	6,229,376	4,896,741
Accruals	4,907,862	55,897,498
Past service cost	487,514	696,449
Pension liability	48,963	9,390,775
Unrealized foreign currency exchange loss	6,789	-
Unutilized losses for the current year	-	6,018,963
Allowance for impairment of assets	-	1,182,203
MCIT	-	1,531,759
Provision for probable loss	-	1,681,109
	18,461,714	117,911,455
Deferred tax liabilities on:		
Unrealized foreign currency exchange gain	1,757,877	2,291,157
Remeasurement gain on retirement plan	1,087,533	-
Excess of percentage of completion over billed revenue	959,779	-
Pension asset	423,085	93,210
Discount on long-term loan	46,748	-
	4,275,022	2,384,367
Net deferred tax assets	₱14,186,692	₱115,527,088



Net deferred tax liabilities:

	2018	2017
Deferred tax liabilities on fair value adjustment on intangible assets	(P352,729,028)	(P360,721,831)
Deferred tax assets on interest expense on liability for written put option	-	4,862,730
Net deferred tax liabilities	(P352,729,028)	(P355,859,101)

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. Below are the Group's deductible temporary differences for which no deferred tax assets are recognized since management believes that there are no sufficient taxable profits against which the deferred tax assets can be utilized:

	2018	2017
NOLCO	P467,613,479	P48,267,731
Allowance for impairment losses	412,790,496	-
Accrued expenses	173,085,658	-
Unrealized loss on financial assets at FVOCI	44,244,957	-
Pension liability	15,129,319	-
Excess of billed revenue over POC	5,581,302	-
Unrealized loss on revaluation of cryptocurrencies	2,551,474	-
MCIT	1,737,050	39,651
Unrealized foreign exchange loss	1,479,265	-
	P1,124,213,000	P48,307,382

The carryforward NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deduction against income tax liabilities over a period of three years follow:

NOLCO:

Year Incurred	Beginning	Additions	Applied/ Expired	End	Year of Expiration
2015	P34,777,339	P-	P34,777,339	P-	2018
2016	40,686,981	-	-	40,686,981	2019
2017	94,856,604	-	-	94,856,604	2020
2018	-	354,673,927	-	354,673,927	2021
	P170,320,924	P354,673,927	P34,777,339	P490,217,512	

MCIT:

Year Incurred	Beginning	Additions	Applied/ Expired	End	Year of Expiration
2015	P469,465	P-	P469,465	P-	2018
2017	1,101,945	-	-	1,101,945	2020
2018	-	635,105	-	635,105	
	P1,571,410	P635,105	P469,465	P1,737,050	

In 2017, AOC recognized unutilized losses amounting to P6.02 million. This was derecognized in 2018.



The reconciliation between the statutory and effective income tax rates for the years ended December 31, 2018, 2017 and 2016 follows:

	2018	2017	2016
Statutory income tax rate	(₱200,140,290)	₱36,611,833	₱113,731,470
Adjustments resulting from:			
Changes in unrecognized deferred tax assets	322,771,685	16,090,335	469,205
Nondeductible loss from investment in associates	15,896,540	11,016,406	10,170,716
Effect of lower income tax rate	4,950,591	4,504,399	(16,136,550)
Nondeductible expenses	594,804	2,898,489	9,141,201
Expired MCIT	469,465	674,502	431,519
Effect of capital allowance utilized	25,246	(17,689,124)	(2,212,058)
Reversal for allowance for doubtful accounts	-	674,258	597,433
Effect of tax rebate	-	-	(695,487)
Effect of income tax exemption	-	-	(901,525)
Nontaxable income (Note 18)	-	(35,251,895)	-
Interest income subjected to final tax	(61,093)	(62,104)	(327,157)
Provision for income tax	₱144,506,949	₱19,467,099	₱114,268,767

22. Retirement and Other Long-term Employee Benefits

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

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

The funds of the Plan are administered by a trustee bank, BPI Asset Management and Trust Group, under the supervision of the Board of Trustee (BOT) of the Plan. The BOT is responsible for the investment strategy of the Plan.

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



The components of net pension expense in the consolidated statements of comprehensive income are as follows:

	2018	2017	2016
Current service cost	₱5,488,022	₱10,959,802	₱9,083,236
Net interest cost on benefit obligation	1,510,424	1,201,518	2,066,825
Past service cost - curtailment	(1,408,264)	(3,307,689)	(7,618,102)
	₱5,590,182	₱8,853,631	₱3,531,959

The Group recognized pension expense amounting to ₱5.49 million, ₱11.78 million and ₱9.30 million included in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income in 2018, 2017 and 2016, respectively.

The Group undertook restructuring in 2018, 2017 and 2016 which caused a significant reduction in the headcount. Specifically, the decline in the number of employees covered by the Group’s plan included 53, 19 and 3 officers with 16 years tenure as at December 31, 2018, 2017 and 2016, respectively. Accordingly, pension expense, net of curtailment recognition, amounting to ₱5.59 million was recognized in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income in 2018 while, curtailment recognition, net of pension expense, amounting to ₱2.92 million and ₱5.77 million was recognized under “Other income” in the consolidated statements of comprehensive income in 2017 and 2016, respectively.

The accrued pension of the Group is as follows:

	2018	2017
Present value of benefit obligation	₱36,699,615	₱45,535,913
Fair value of plan assets	(14,588,805)	(14,544,029)
Net pension liability position	₱22,110,810	₱30,991,884

As of December 31, 2018 and 2017, pension asset amounted to ₱1.41 million and ₱0.31 million, respectively, and pension liabilities amounted to ₱23.52 million and ₱31.30 million, respectively.

The following table presents the changes in the present value of defined benefit obligation and fair value of plan assets.

Present value of defined benefit obligation

	2018	2017
Balance at beginning of year	₱45,535,913	₱40,651,835
Current service cost	5,488,022	10,959,802
Interest cost on benefit obligation	2,579,138	2,269,241
Past service cost - curtailment	(1,408,264)	(3,307,689)
Net actuarial gains	(15,495,194)	(5,037,276)
	₱36,699,615	₱45,535,913



Fair value of plan assets

	2018	2017
Balance at beginning of year	₱14,544,029	₱14,131,399
Interest income	1,068,714	1,067,723
Actual return excluding amount included in net interest cost	(1,023,938)	(655,093)
Balance at end of year	₱14,588,805	₱14,544,029
Actual return on plan assets	₱44,776	₱412,630

The fair value of plan assets by each class as of December 31, 2018 and 2017 is as follows:

	2018	2017
Investment in mutual funds	₱11,431,807	₱11,087,918
Investment in UITF	2,672,164	3,455,792
Equities	483,742	-
Cash	1,092	319
	₱14,588,805	₱14,544,029

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

Remeasurement gain on defined benefit plan under consolidated statements of comprehensive income follow:

	2018	2017	2016
Actuarial gain on defined benefit obligation	₱15,495,194	₱5,037,276	₱9,051,911
Actual return excluding amount included in net interest cost	(1,023,938)	(655,093)	(142,861)
Tax effect relating to actuarial gain	(5,345,695)	(1,314,655)	(2,672,715)
	₱9,125,561	₱3,067,528	₱6,236,335

Actuarial loss on defined benefit pension plan recorded under "Retirement benefit reserve" in the consolidated statements of changes in equity follow:

	2018	2017	2016
Balance at beginning of year	₱2,596,015	₱5,663,543	₱11,899,877
Actuarial gain on defined benefit obligation	(15,495,194)	(5,037,276)	(9,051,911)
Actual return excluding amount included in net interest cost	1,023,938	655,093	142,861
Tax effect relating to actuarial gain	5,345,695	1,314,655	2,672,715
	(₱6,529,546)	₱2,596,015	₱5,663,542
Attributable to:			
Equity holders of Xurpas Inc.	(₱3,441,396)	₱3,478,395	₱5,229,023
Noncontrolling interests	(3,088,150)	(882,380)	434,519
	(₱6,529,546)	₱2,596,015	₱5,663,542



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

	2018	2017	2016
Discount rate	7.42 - 7.80%	5.77 - 6.80%	5.00 - 5.86%
Salary projection rate	3.00 - 8.00%	5.00 - 7.00%	5.00 - 8.00%

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

		Effect on DBO	
		2018	2017
Discount rate	(+) 1.0%	(P4,702,690)	(P4,022,294)
	(-) 1.0%	5,617,652	5,421,780
Salary increase rate	(+) 1.0%	6,245,288	5,550,551
	(-) 1.0%	(5,262,820)	(4,092,782)

The weighted average duration of defined benefit obligation at the end of the reporting period is 13.00 to 30.20 years and 17.70 to 31.30 years in 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

	2018	2017
Within 1 year	P1,358,992	P1,120,389
More than 1 year to 5 years	923,509	1,201,789
More than 5 years	537,322,827	895,381,553
	P539,605,328	P897,703,731

The Group expects to contribute P8.25 million to the retirement fund in 2019.

Other Long-Term Employee Benefits

In 2017, the Group recognized other long-term benefits expense amounting to P35.67 million for an employee of a subsidiary. This is included in "Salaries, wages and employee benefits" under "General and administrative expenses" in the consolidated statements of comprehensive income. As of December 31, 2018, outstanding payable amounting to P18.33 million is recognized as "Others" under "Accounts and other payables" in the consolidated statements of financial position.

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. for an aggregate consideration of P1.40 billion in cash and in Parent Company's shares. AOC 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 as 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 (see Note 18).

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 (see Note 18).



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, there will be 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 (see Note 18). The change in the timing of the payment resulted in an acceleration of the accretion of unamortized interest expense amounting to ₱4.92 million (see Note 18). 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. As of April 30, 2019, the conditions have not been met.

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 income (charges)” in the consolidated statements of comprehensive income (see Note 18). 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 following are the fair values of the identifiable assets and liabilities assumed after the finalization of the purchase price allocation in 2017:

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

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. The 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 in 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 have an exercise date 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 ₱848.50 million was initially recognized in the consolidated statements of financial position for the redemption obligation related to the written put option over the shares held by GTI. The liability was initially recognized at the present value of the redemption price at acquisition date. For the years ended December 31, 2018, 2017 and 2016, interest expense



amounting to nil, nil and ₱11.52 million, respectively, was recognized in the consolidated statements of comprehensive income in “Other income (charges)” and is reflected in the net income attributable to the equity holders of the Parent Company.

In September 2018, the call and put options remained unexercised and were terminated in line with their expiration resulting to a gain amounting to ₱16.21 million recognized under “Other charges (income)”. As at December 31, 2018 and 2017, the carrying value of the financial liability amounted to nil and ₱864.71 million.

Acquisition of Noncontrolling Interests

Xeleb Technologies Inc.

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

Xeleb Inc.

On August 22, 2016, Xeleb Technologies Inc. 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 Technologies acquired the remaining 33.00% stake in Xeleb Inc. from various individuals for a total consideration of ₱1.65 million. This resulted in 100.00% ownership interest of Xeleb Technologies, Inc. in Xeleb Inc.

Xeleb Technologies and Xeleb are entities under common control of Xurpas 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. This resulted in the recognition of equity reserves amounting to ₱5.39 million (see Note 24).

Storm Technologies, Inc.

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. This resulted in the recognition of equity reserves amounting to ₱7.62 million (see Note 24).

24. Equity

The details of the Parent Company’s capital stock follow:

	2018	2017
Authorized shares	5,000,000,000	5,000,000,000
Par value per share	₱0.10	₱0.10
Issued shares	1,934,925,852	1,867,640,146
Treasury shares	63,985,642	63,985,642
Value of shares issued	₱193,492,586	₱186,764,015
Value of treasury shares	(₱115,464,275)	(₱115,464,275)

The Parent Company is a corporation having a renewable term of 50 years. As of December 31, 2018, the Parent Company’s remaining corporate life is 33 years.



In accordance with Securities Regulation Code Rule 68, As amended (2011), Annex 68-D, below is the summary of the Parent Company’s track record of registration of securities as of December 31:

	Number of shares registered	Issue/offer price	Date of approval	2018	2017
				Number of holders of securities as of December 31	Number of holders of securities as of December 31
Common shares	344,000,000	₱3.97 issue price	November 13, 2014	26	23

Overnight Top-Up Placement

On April 29, 2016, the Parent Company issued 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 as 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 a share purchase agreement (see Note 23). The shares were issued at ₱3.80 per share.

Retained Earnings

Appropriations

On December 29, 2015, the Parent Company’s BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱65.82 million. On November 10, 2017, such was released from appropriation.

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 ₱170.00 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 buyback program adopted in 2016. A total of ₱88.82 million has been used under the said program. Accordingly, the balance of ₱81.18 million previously allocated for the buyback program was released from such appropriation.

On July 18, 2017, the BOD of the Parent Company approved the appropriation of unrestricted retained earnings for the buyback of its common shares amounting to ₱26.65 million.

Appropriated retained earnings amounted to ₱115.46 million as of December 31, 2018 and 2017.

Dividends declaration

On May 10, 2016, the Parent Company’s BOD approved the declaration of cash dividends of approximately ₱0.048 per share, or the aggregate amount of ₱86.29 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.



On May 8, 2017, the Parent Company's BOD approved the declaration of cash dividends in the amount of ₱92.85 million or ₱0.05 per share in favor of the Parent Company's common stockholders of record as of May 23, 2017, payable on or before June 15, 2017.

The Parent Company has no outstanding dividends payable as of December 31, 2018 and 2017.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to nil and ₱93.43 million, respectively. Retained earnings also include undistributed net earnings amounting to ₱98.34 million and ₱211.36 million as of December 31, 2018 and 2017, respectively, representing accumulated equity in the net earnings of subsidiaries and associates. These are not available for dividend distribution unless declared by subsidiaries and associates.

The dividend declaration of Yondu resulted in reduction in NCI amounting to ₱39.91 million, ₱59.90 million and ₱4.90 million in 2018, 2017 and 2016, respectively.

Equity Reserve

In 2015, a reserve amounting to ₱848.50 million was set up in relation to a recognized financial liability for the written put option over the ownership interest of GTI in Yondu. In 2018, this was subsequently reversed as a result of the expiration of the option.

In 2016, the Parent Company purchased additional shares from noncontrolling interests of Xeleb, Xeleb Technologies 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.	₱45,000,000	₱3,506,647	(₱41,493,353)
Storm Technologies Inc.	10,002,330	2,382,396	(7,619,934)
Xeleb Inc.	1,650,000	7,038,398	5,388,398
	<u>₱56,652,330</u>	<u>₱12,927,441</u>	<u>(₱43,724,889)</u>

In 2017, a reserve amounting to ₱358.50 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 ₱170.00 million subject to the prevailing market price at the time of the buyback. The Parent Company commenced the program on November 14, 2016 and ends 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 8,532,900 shares which amounted to ₱71.51 million.

In January and February 2017, the Parent Company acquired 2,154,500 shares for ₱17.30 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 ₱88.82 million.



On July 18, 2017, the Parent Company reacquired 53,298,242 common shares from Allix for a total amount US\$532,983 or ₱26.65 million (see Note 23).

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 December 31, 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:

	2018	2017
Capital stock	₱193,492,585	₱186,764,015
Additional paid-in capital	3,592,076,662	3,343,119,550
Retained earnings	—	322,730,858
	₱3,785,569,247	₱3,852,614,423

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 during the years ended December 31, 2018 and 2017.

25. **Subsidiary with Material Noncontrolling Interests**

Noncontrolling interests pertain to the following percentage interests in subsidiaries that the Parent Company does not own. The summarized financial information is provided below for the subsidiary with material noncontrolling interest. This information is based on the amounts before intercompany eliminations.

The Parent Company considers a subsidiary with material noncontrolling interests if its net assets exceed 5.00% 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.



Yondu, Inc.

	2018	2017
Proportion of equity interests held by noncontrolling interests	49.00%	49.00%
Accumulated balances of noncontrolling interests	₱784,232,345	₱790,397,620
Profit allocated to noncontrolling interests	31,505,621	52,481,168
Other comprehensive income allocated to noncontrolling interests	1,643,456	386,684
Total comprehensive income allocated to noncontrolling interests	33,149,077	52,867,852

	2018	2017
Statements of financial position		
Current assets	₱548,384,746	₱595,104,760
Noncurrent assets	1,743,348,029	1,767,964,968
Current liabilities	216,478,738	261,628,359
Noncurrent liabilities	341,866,029	345,947,571
Total equity	1,733,388,008	1,755,493,798
Attributable to:		
Equity holders of Xurpas Inc.	949,155,663	965,096,178
Noncontrolling interests	784,232,345	790,397,620

For the years ended December 31

	2018	2017
Statements of comprehensive income		
Revenue	₱862,816,632	₱886,038,834
Cost and expenses	772,235,401	732,141,984
Income before income tax	90,581,231	153,896,850
Provision for income tax	26,284,045	46,792,427
Income from operations	64,297,186	107,104,423
Other comprehensive income	3,353,992	789,152
Total comprehensive income	67,651,178	107,893,575
Attributable to:		
Equity holders of Xurpas Inc.	34,502,101	55,025,723
Noncontrolling interests	33,149,077	52,867,852

For the years ended December 31

	2018	2017
Statements of cash flows		
Net cash provided by operating activities	₱82,582,705	₱75,671,108
Net cash used in investing activities	(6,957,923)	(2,412,735)
Net cash used in financing activities	(32,624,962)	(112,609,730)
Effect of exchange rate changes	187,680	781,446



26. Earnings Per Share

The Group's earnings (loss) per share for the years ended December 31, 2018, 2017 and 2016 were computed as follow:

	2018	2017	2016
Net income (loss) attributable to the equity holders of the Parent Company	(₱765,794,458)	₱35,765,776	₱215,304,020
Weighted average number of outstanding shares	1,859,695,202	1,840,345,403	1,788,554,700
Dilutive shares arising from payable to former shareholders of a subsidiary	-	-	28,209,155
Adjusted weighted average number of common shares for diluted earnings per share	1,859,695,202	1,840,345,403	1,816,763,855
Basic earnings (loss) per share	(₱0.41)	₱0.02	₱0.12
Diluted earnings (loss) per share	(₱0.41)	₱0.02	₱0.12

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

In 2016, future issuance of shares in relation to the consideration for the acquisition of 100.00% ownership in AOC has a dilutive effect on the computation of earnings per share.

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, payable to former shareholders of a subsidiary, 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.
- Financial assets at FVOCI, AFS quoted equity investments - 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 debt investments) - Fair values are based on the comparable prices adjusted for specific market factors such as nature, industry, location and market recovery rates.



- AFS unquoted equity security and AFS unquoted debt investments - For unquoted equity and debt investments with recent sales at arm's length transaction, fair values were determined using prices in such transaction.
- Nontrade payable - Fair values are determined using prices in such transaction which still approximate the fair values at yearend.

The fair values and carrying values of financial assets at FVPL and AFS financial assets are as follows:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at fair value through other comprehensive income	₱475,000	₱475,000	₱-	₱-
AFS financial assets				
Quoted equity security	-	-	380,000	380,000
Unquoted equity security	-	-	44,244,956	44,244,956
Unquoted debt investments	-	-	114,428,123	114,428,123

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 and AFS financial assets amounting to ₱0.38 million as of December 31, 2018 and 2017 were classified under Level 2 (see Note 7).

Unquoted financial assets at FVOCI amounting to nil and ₱158.67 million as of December 31, 2018 and 2017 were classified under Level 3 (see Note 7).

As at December 31, 2018 and 2017, 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 in 2018 and 2017.

The Group's risk management policies are summarized below:

Credit Risk

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

The Group's credit risk is primarily attributable to cash in bank and accounts and other receivables. Credit risk management involves monitoring its exposure to credit risk on a continuous basis.

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

The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 36% and 58% of its total trade receivables as at December 31, 2018 and 2017, respectively (see Note 5). Recent economic condition and market segment of GTI shows its continuing growth and success.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rate is based on days past due of all customers as they have similar loss patterns. The expected credit loss rate ranges from 0.40% to 68.12% that resulted in the ECL of ₱265.02 million and ₱113.79 million as of December 31, 2018 and 2017, respectively.

The Group's credit risk exposure on its trade receivables using provision matrix are as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱-	₱-	₱12,606,435	₱758,789,089	₱771,395,524
Loss allowance	-	-	(12,606,435)	(252,417,937)	(265,024,372)
Carrying amount	₱-	₱	₱	₱506,371,152	₱506,371,152

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 funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines and negotiate for longer payment terms for its payables to manage liquidity.

The table summarizes the maturity profile of the Group's financial assets and liabilities and contract assets as at December 31, 2018 and 2017 based on contractual undiscounted payments:

December 31, 2018

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱177,396,187	₱-	₱-	₱177,396,187
Accounts and other receivables				
Trade receivables	506,371,152	-	-	506,371,152
Receivable from related parties	5,808,461	-	-	5,808,461
Others	13,693,032	-	-	13,693,032
Financial asset at FVOCI	475,000	-	-	475,000
Other current assets				
Refundable deposits	11,437,282	-	-	11,437,282
Other noncurrent assets				
Cash bond	-	1,065,485	-	1,065,485
Total undiscounted financial assets	715,181,114	1,065,485	-	716,246,599
Contract assets	9,748,084	-	-	9,748,084
Total undiscounted financial assets and contract assets	724,929,198	1,065,485	-	725,994,683
Financial Liabilities				
Trade and other payables				
Trade payables	179,196,897	-	-	179,196,897
Payable to related parties	104,006,794	-	-	104,006,794
Nontrade payable	55,364,501	-	-	55,364,501
Accrued expenses	42,658,546	-	-	42,658,546
Loans payable	358,741,481	8,285,211	-	367,026,692
Finance lease liability	589,704	25,388	-	615,092
Total undiscounted financial liabilities	740,557,923	8,310,599	-	748,868,522
Liquidity gap	(₱15,628,725)	(₱7,245,114)	₱-	(₱22,873,839)



December 31, 2017

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱215,254,510	₱-	₱-	₱215,254,510
Accounts and other receivables				
Trade receivables	933,361,381	-	-	933,361,381
Receivable from related parties	7,490,000	-	-	7,490,000
Others	13,449,238	-	-	13,449,238
AFS financial assets	-	159,053,079	-	159,053,079
Other current assets				
Refundable deposits	8,149,786	-	-	8,149,786
Other noncurrent assets				
Cash bond	-	65,485	-	65,485
Total undiscounted financial assets	1,177,704,915	159,118,564	-	1,336,823,479
Financial Liabilities				
Trade and other payables				
Trade payables	218,584,771	-	-	218,584,771
Payable to related parties	102,534,280	-	-	102,534,280
Accrued expenses	60,604,203	-	-	60,604,203
Loans payable	377,419,000	-	-	377,419,000
Finance lease liability	1,188,930	605,713	-	1,794,643
Liability for written put option	864,705,965	-	-	864,705,965
Payable to former shareholders of a subsidiary	244,426,311	-	-	244,426,311
Total undiscounted financial liabilities	1,869,463,460	605,713	-	1,870,069,173
Liquidity gap	(₱691,758,545)	₱158,512,851	₱-	(₱533,245,694)

December 31, 2016

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱428,517,653	₱-	₱-	₱428,517,653
Financial assets at FVPL	335,915,489	-	-	335,915,489
Accounts and other receivables				
Trade receivables	933,663,242	-	-	933,663,242
Receivable from related parties	43,990	-	-	43,990
Others	17,126,242	-	-	17,126,242
AFS financial assets	108,428,123	44,544,956	-	152,973,079
Other current assets				
Refundable deposits	4,339,029	-	-	4,339,029
Other noncurrent assets				
Cash bond	-	65,485	-	65,485
Total undiscounted financial assets	1,828,033,768	44,610,441	-	1,872,644,209
Financial Liabilities				
Trade and other payables				
Payable to related parties	4,207,681	-	-	4,207,681
Trade payable	1,857,614	-	-	1,857,614
Salaries payable	1,006,160	-	-	1,006,160
Accrued expenses	521,042	-	-	521,042
Loans payable	3,000,000	13,998,370	-	16,998,370
Finance lease liability	1,575,804	1,185,880	-	2,761,684
Liability for written put option	864,705,965	-	-	864,705,965
Payable to former shareholders of a subsidiary	314,133,411	491,292,825	-	805,426,236
Total undiscounted financial liabilities	1,191,007,677	506,477,075	-	1,697,484,752
Liquidity gap	₱637,026,091	(₱461,866,634)	₱-	₱175,159,457



Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with the corresponding nominal amounts and carrying values are shown in the following table:

December 31, 2018

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	₱177,615,174	₱177,615,174	₱-	₱-	₱177,615,174
Loans payable	Variable at 4.00% to 5.8125%	Monthly	358,741,480	358,741,480	-	-	358,741,480
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	615,092	589,704	25,388	-	615,092
Payable to shareholders	Fixed at 5%	n/a	100,216,884	100,216,884	-	-	100,216,884
			₱637,188,630	₱637,163,242	₱25,388	₱-	₱637,188,630

December 31, 2017

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	₱214,868,915	₱214,868,915	₱-	₱-	₱214,868,915
AFS financial assets							
Floating							
SGD	Variable at 3.5% to 4.5%	Annually	3,602,123	-	3,602,123	-	3,602,123
Fixed							
USD	Fixed at 5%	n/a	52,495,000	38,440,000	14,055,000	-	52,495,000
USD	Fixed at 3% and 3.75%	n/a	28,856,000	28,856,000	-	-	28,856,000
USD	Fixed at 3%	n/a	23,475,000	-	23,475,000	-	23,475,000
Loans payable	Variable at 4.00% to 5.8125%	Monthly	377,419,000	377,419,000	-	-	377,419,000
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	1,794,643	1,188,930	605,713	-	1,794,643
Payable to shareholders	Fixed at 5%	n/a	99,151,697	99,151,697	-	-	99,151,697
			₱801,662,378	₱759,924,542	₱41,737,836	₱-	₱801,662,378

December 31, 2016

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	₱420,404,602	₱420,404,602	₱-	₱-	₱420,404,602
AFS financial assets							
Floating							
SGD	Variable at 3.5% to 4.5%	Annually	3,602,123	-	3,602,123	-	3,602,123
Fixed							
USD	Fixed at 5%	n/a	52,495,000	38,440,000	14,055,000	-	52,495,000
USD	Fixed at 3% and 3.75%	n/a	28,856,000	28,856,000	-	-	28,856,000
USD	Fixed at 3%	n/a	23,475,000	-	23,475,000	-	23,475,000
Loans payable	Fixed at 6.75%	n/a	16,998,370	3,000,000	13,998,370	-	16,998,370
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	2,761,684	1,575,804	1,185,880	-	2,761,684
			₱548,592,779	₱492,276,406	₱56,316,373	₱-	₱548,592,779



Foreign Currency Risk

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

The following table shows the outstanding foreign currency-denominated monetary assets and their respective Philippine peso equivalent as of December 31, 2018 and 2017.

	2018		2017	
	Original currency	Peso equivalent	Original currency	Peso equivalent
Cash in bank				
US Dollar (USD)	97,672	₱5,149,284	873,869	₱43,632,270
Singapore Dollar (SGD)	1,476,604	56,804,937	121,464	4,533,375
Indonesian Rupiah (IDR)	—	—	8,901,826	32,937
Trade receivables				
US Dollar (USD)	1,108,773	58,454,513	6,714,902	335,275,070
Singapore Dollar (SGD)	8,015,590	308,359,732	241,325	9,006,931
Saudi Arabia Rial (SAR)	2,798	39,312	334,825	4,457,227
Euro (EUR)	32,654	1,969,363	31,654	1,792,039
U.A.E. Dirham (AED)	25,320	363,595	23,447	318,763
Hong Kong Dollar (HKD)	3,188	21,455	422	2,693
Taiwan Dollar (TWD)	351	600	351	589
Total foreign currency denominated assets		431,162,791		399,051,894
Trade Payables				
US Dollar (USD)	6,090,123	321,071,285	2,213,370	110,513,564
Singapore Dollar (SGD)	2,941,641	113,164,936	251,014	9,368,527
Indonesian Rupiah (IDR)	—	—	5,000,000	18,500
Total foreign currency denominated liabilities		434,236,221		119,900,591
Net foreign currency denominated financial instruments		(₱3,073,430)		₱279,151,303

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

	2018	2017
USD to ₱	₱52.72	₱49.93
SGD to ₱	38.47	37.32
IDR to ₱	0.004	0.004
SAR to ₱	14.05	13.31
EUR to ₱	60.31	56.61
AED to ₱	14.36	13.59
HKD to ₱	6.73	6.38
TWD to ₱	1.71	1.68

Equity Price Risk

Equity price risk is the risk that the financial assets whose values will fluctuate as a result of changes in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in market. As of December 31, 2018 and 2017, the Group has minimal exposure in equity price risk since the Group's quoted AFS amounted to nil. Moreover, the Group's investments in AFS are generally perceived as not highly susceptible to the equity price risk since the shares are issued by stable company and are not subjected to other than temporary decline

There is no impact on the Group's equity other than those already affecting net income.



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, other 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 years ended December 31, 2018, 2017 and 2016:

2018

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱314,237,156	₱909,854,454	₱7,142,270	₱77,891,396	₱1,153,342,484
Sale of goods	–	–	88,845,797	–	88,845,797
	314,237,156	909,854,454	95,988,067	77,891,391	1,242,188,286
COST AND EXPENSES	(1,126,781,765)	(940,466,356)	(167,130,298)	(400,732,207)	(1,833,646,212)
Equity in net losses of associates	–	–	–	(52,988,467)	52,988,467
Other (income) charges - net	16,585,189	(715,225)	(8,374,556)	(27,631,840)	35,127,248
	(795,959,420)	(31,327,127)	(79,516,787)	(242,220,509)	(664,582,825)
Provision for income tax	5,321,397	20,774,335	25,135,981	(93,275,237)	144,506,950
Net income (loss)	(₱801,280,817)	(₱52,101,462)	(₱104,652,768)	(₱148,945,271)	(₱809,089,775)
Net loss attributable to:					
Equity holders of Xurpas Inc.					(₱765,794,458)
Noncontrolling interests					(45,846,791)
					(₱811,641,249)

2017

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱1,599,595,564	₱721,362,136	₱5,674,500	(₱317,081,184)	₱2,009,551,016
Sale of goods	–	–	94,018,662	–	94,018,662
	1,599,595,564	721,362,136	99,693,162	(317,081,184)	2,103,569,678
COST AND EXPENSES	(1,424,342,213)	(721,942,502)	(169,432,118)	288,679,607	(2,027,037,226)
Equity in net losses of associates	–	–	–	(36,721,355)	(36,721,355)
Other (income) charges - net	(207,175,098)	(5,088,295)	1,306,424	128,728,618	(82,228,351)
	382,428,449	4,507,929	(71,045,380)	(193,851,550)	122,039,448
Provision for (benefit from) income tax	64,630,265	27,491,072	(7,224,690)	(65,429,549)	19,467,098
Net income (loss)	₱317,798,184	(₱22,983,143)	(₱63,820,690)	(₱128,422,001)	₱102,572,350
Net income attributable to:					
Equity holders of Xurpas Inc.					₱36,349,951
Noncontrolling interests					66,222,399
					₱102,572,350



2016

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱1,324,582,926	₱660,589,609	₱3,392,600	(₱92,105,104)	₱1,896,460,031
Sale of goods	–	–	50,678,833	–	50,678,833
	1,324,582,926	660,589,609	54,071,433	(92,105,104)	1,947,138,864
COST AND EXPENSES					
	(909,880,547)	(564,009,746)	(102,495,482)	77,944,682	(1,498,441,093)
Equity in net losses of associates	–	–	–	(33,902,387)	(33,902,387)
Other (income) charges - net	19,198,855	(6,216,357)	(46,286)	22,754,270	35,690,482
	395,503,524	102,796,220	(48,377,763)	(70,817,079)	379,104,902
Provision for (benefit from) income tax	107,023,187	26,859,251	(11,890,178)	(7,723,493)	114,268,767
Net income (loss)	₱288,480,337	₱75,936,969	(₱36,487,585)	(₱63,093,586)	₱264,836,135
Net income attributable to:					
Equity holders of Xurpas Inc.					₱215,304,022
Noncontrolling interests					49,532,113
					₱264,836,135

The following tables present business segment assets and liabilities as at December 31, 2018 and 2017:

2018

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱4,327,932,152	₱625,205,086	₱96,494,474	(₱97,253,309)	₱4,952,378,403
Deferred tax assets	1,825,761	28,494,512	6,592,302	(21,721,243)	15,191,332
Total assets	4,329,757,913	653,699,598	103,086,776	(118,974,552)	4,967,569,735
Segment liabilities	1,214,435,143	452,518,107	218,843,982	(738,545,397)	1,147,251,834
Deferred tax liabilities	–	1,004,640	–	352,729,028	353,733,668
Segment liabilities	₱1,214,435,143	₱453,522,747	₱218,843,982	(₱385,816,369)	₱1,500,985,502

2017

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱5,338,888,976	₱451,357,473	₱70,325,713	(₱165,918,968)	₱5,694,653,194
Deferred tax assets	50,768,130	15,617,556	29,959,092	19,182,307	115,527,085
Total assets	5,389,657,106	466,975,029	100,284,805	(146,736,661)	5,810,180,279
Segment liabilities	1,562,816,025	263,449,084	123,857,976	148,698,843	2,098,821,928
Deferred tax liabilities	–	–	–	355,859,101	355,859,101
Segment liabilities	₱1,562,816,025	₱263,449,084	₱123,857,976	₱504,557,944	₱2,454,681,029

2016

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱4,482,402,205	₱369,948,861	₱66,521,158	₱1,492,386,712	₱6,411,258,936
Deferred tax assets	28,825,521	10,823,750	22,441,558	184,703	62,275,532
Total assets	4,511,227,726	380,772,611	88,962,716	1,492,571,415	6,473,534,468
Segment liabilities	1,310,684,803	172,676,879	46,665,740	793,050,247	2,323,077,669
Deferred tax liabilities	17,530,035	–	–	346,321,870	363,851,905
Segment liabilities	₱1,328,214,838	₱172,676,879	₱46,665,740	₱1,139,372,117	₱2,686,929,574



29. Notes to Consolidated Statement of Cash Flows

Disclosed below is the rollforward of liabilities under financing activities:

	January 1, 2018	Cash flows	Non-cash changes	Foreign exchange movement	December 31, 2018
Loans payable	₱377,419,000	(₱18,677,519)	₱-	₱-	₱358,741,481
Dividends payable	38,152,639	(13,819,758)	38,830,452	-	63,163,333
Finance lease liability	1,794,643	-	(1,179,551)	-	615,092
Total liabilities from financing activities	₱417,366,282	(₱32,497,277)	₱37,650,901	₱-	₱422,519,906

	January 1, 2017	Cash flows	Non-cash changes	Foreign exchange movement	December 31, 2017
Current loans payable	₱3,000,000	₱374,419,000	₱-	₱-	₱377,419,000
Noncurrent loans payable	13,998,370	(13,998,370)	-	-	-
Dividends payable	116,486,508	(231,078,267)	115,768,748	-	1,176,989
Finance lease liability	2,589,692	(1,863,531)	1,068,482	-	1,794,643
Total liabilities from financing activities	₱136,074,570	₱127,478,832	₱116,837,230	₱-	₱380,390,632

The noncash investing and financing activities of the Group are as follows:

- Unrealized gain on financial assets at FVOCI amounted to ₱95,000 in 2018.
- Unrealized gain on available-for-sale financial assets amounted to nil and ₱60,000 in 2017 and 2016, respectively.
- Cumulative translation adjustments recognized under “Investments in associates” amounted to ₱8.66 million, ₱2.53 million and ₱4.16 million for 2018, 2017 and 2016, respectively.
- As of December 31, 2018, 2017 and 2016, outstanding dividends payable pertaining to dividends declared to noncontrolling interests amounted to ₱63.16 million, ₱38.15 million and ₱4.40 million, respectively, under “Other current liabilities”.
- As of December 31, 2018, 2017 and 2016, additions to property and equipment has outstanding payable amounting to ₱0.76 million, ₱1.11 million and ₱1.79 million, respectively.
- As of December 31, 2018, 2017 and 2016, additions to intangible asset has outstanding payable amounting to ₱203.14 million, ₱10.57 million and ₱14.44 million, respectively.
- In 2018, Storm issued 3,601 common shares to various individuals resulting to the Parent Company’s dilution of ownership from 56.60% to 53.96% in Storm. The transfer of the Parent Company’s share in the accumulated net losses of Storm to the noncontrolling interest amounted to ₱3.19 million.
- As a result of the business combinations in 2016, the Group acquired receivables, other current assets, property and equipment, accounts and other payables, income tax payable, other current liabilities, loans payable, net deferred tax liabilities and pension liability. See Note 23 for acquisition-date assets and liabilities acquired through business combination. Also, goodwill and intangible assets acquired through business combination amounted to ₱1,856.81 million and ₱61.51 million, respectively, in 2016.



30. Provisions and Contingencies

The Group is currently involved in assessments for national taxes and the outcome of these assessments is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these assessments, if any, will not have a material effect on the Group's financial position and results of operations. The information usually required under PAS 37 is not disclosed on the ground that it may prejudice the outcome of the assessments.

The Group, through ODX, entered into Token Pre-Sale Agreements ("PSA") with various investors for the sale of ODX tokens. Investment received from the PSA amounted to USD3.54 million (equivalent to ₱184.53 million) as of December 31, 2018 (see Note 12).

The Group, through ODX, also entered into advisory agreements with various 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.

31. Events After Reporting Date

On February 20, 2019, the BOD approved the availment of loan from the Parent Company's founders with an aggregate amount of ₱150.00 million, of which ₱120.00 million has been received as of April 30, 2019. The proceeds of the loan will be used by the Parent Company to fund enterprise projects and general corporate purposes.

On April 8, 2019, the Parent Company issued 415,000 shares taken from its treasury shares for a price of ₱1.23 per share. Total proceeds from the transaction amounted to ₱510,450.

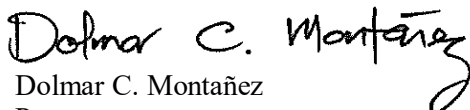


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and have issued our report thereon dated April 30, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules A to K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez
Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 7332588, January 3, 2019, Makati City

April 30, 2019



XURPAS INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

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

XURPAS INC. AND SUBSIDIARIES**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Loans and receivables			
Cash			
Cash on hand	P-	P217,029	P-
Cash in banks			
Bank of the Philippine Islands			
Current Account	-	8,385,964	89,537
Savings Account	-	3,384,385	16,561
US Dollar Account	-	154,426	195
Robinsons Bank			
Savings Account	-	730,300	-
Security Bank			
Savings Account	-	8,210,304	95,143
US Dollar Account	-	574,736	7,932
Unionbank			
Current Account	-	3,422,635	-
Savings Account	-	81,324,285	53,715
US Dollar Account	-	2,465,162	1,770
China Bank			
Savings Account	-	3,786,048	11,749
US Dollar Account	-	100,318	4,495
Metrobank			
Savings Account	-	313,008	877
Asia United Bank			
Current Account	-	97,972	-
Banco De Oro			
Current Account	-	7,070,874	62,848.
Savings Account	-	34,612	-
CIMB Niaga Bank	-	148,357	-
CIMB Bank			
US Dollar Account	-	24,168,868	-
SG Dollar Account	-	5,916,939	99,608
OCBC Bank			
US Dollar Account	-	24,445,638	-
SG Dollar Account	-	1,008,606	-
Paypal	-	1,435,720	-
Accounts and other receivables			
Trade	-	771,395,524	-
Receivable from related parties	-	5,808,461	-
Others	-	13,693,032	-
	-	968,293,203	444,430
Financial assets at fair value through other comprehensive income			
Unquoted debt investments	-	-	-
Unquoted equity investment	-	-	-
Quoted equity investment	-	475,000	-
	-	475,000	-
	P-	P968,768,203	P444,430

SCHEDULE B**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Write off	Current	Noncurrent	Balance at the end of the year
Advances to employees	₱5,159,944	₱463,382	(₱859,286)	₱-	₱4,764,040	₱-	₱4,764,040
Accounts receivable from directors, officers, KMP and employees	2,500,000	-	-	(2,500,000)	-	-	-
	₱7,659,944	₱463,382	(₱859,286)	(₱2,500,000)	₱4,764,040	₱-	₱4,764,040

SCHEDULE C

XURPAS INC. AND SUBSIDIARIES

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

	Amount owed by Xurpas Parent to Xurpas Subsidiaries			
	Receivable balance per Xurpas Parent	Payable balance per Xurpas Subsidiaries	Current	Noncurrent
ODX Pte. Ltd	P187,516,648	P187,516,648	P187,516,648	P-
Xeleb Technologies Inc. and subsidiary	191,562,591	191,562,591	191,562,591	-
Art of Click Pte. Ltd.	18,058,075	18,058,075	18,058,075	-
Yondu Inc.	2,394,300	2,394,300	2,394,300	-
Xurpas Enterprise Inc.	142,800	142,800	142,800	-
<i>Subtotal</i>	P399,674,414	P399,674,414	P399,674,414	P-

	Amount owed by Xurpas Subsidiaries to Xurpas Parent			
	Receivable balance per Xurpas Subsidiaries	Payable balance per Xurpas Parent	Current	Noncurrent
Storm Inc.	P98,482,617	P98,482,617	P98,482,617	P-
Xurpas Enterprise Inc.	66,324,485	66,324,485	66,324,485	-
Yondu Inc.	31,153,208	31,153,208	31,153,208	-
Seer Technologies Inc.	24,361,821	24,361,821	24,361,821	-
Art of Click Pte. Ltd.	14,466,801	14,466,801	14,466,801	-
Xeleb Technologies Inc. and subsidiary	10,007,845	10,007,845	10,007,845	-
ODX Pte. Ltd.	2,835,679	2,835,679	2,835,679	-
<i>Subtotal</i>	P247,632,456	P247,632,456	P247,632,456	P-

	Amount owed to Xurpas Subsidiary to Xurpas Subsidiary			
	Receivable to	Payable from	Current	Noncurrent
Xurpas Enterprise Inc.		Art of Click Pte. Ltd.	P17,491,119	P-
Xeleb Technologies Inc.		Xurpas Enterprise Inc.	11,129,433	-
Yondu Inc.		Seer Technologies Inc.	5,823,803	-
Seer Technologies Inc.		Xurpas Enterprise Inc.	5,538,628	-
Yondu Inc.		Xurpas Enterprise Inc.	2,902,191	-
Xurpas Enterprise Inc.		Storm Technologies Inc.	858,055	-
Xeleb Technologies Inc.		Seer Technologies Inc.	168,000	-
Storm Technologies Inc.		Seer Technologies Inc.	59,619	-
<i>Subtotal</i>			P43,970,848	P-
Total eliminated receivables			P691,277,718	P-

SCHEDULE D**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS**

Description	Beginning balance	Acquired through business combination	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	₱2,544,617,520	₱-	₱-	(₱144,855,367)	₱-	₱-	₱2,399,762,153
Customer relationship	1,077,809,700	-	-	-	-	-	1,077,809,700
Developed software	140,184,690	-	18,609,327	(34,592,265)	-	(3,120,021)	121,081,731
Leasehold rights	11,268,196	-	-	(2,482,687)	-	-	8,785,509
Cryptocurrencies	-	-	184,527,714	-	-	(179,043,123)	5,484,591
	₱3,773,880,106	₱-	₱203,137,041	(₱181,930,319)	₱-	(₱182,163,144)	₱3,612,923,684

SCHEDULE E

XURPAS INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

	Long-term Debt		
	Amount shown under caption	Amount shown under caption	Amount shown under caption
	Amount authorized by indenture	“current portion of long-term” in related balance sheet	“long-term debt” in related balance sheet
Title of issue and type of obligation			
<i>The Group does not have long-term loans.</i>			

XURPAS INC. AND SUBSIDIARIES

**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)**

Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period
-----------------------	--------------------------------	--------------------------

The Group does not have long-term loans from related companies in its consolidated statements of financial position.

XURPAS INC. AND SUBSIDIARIES**SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS****Guarantees of Securities of Other Issuers**

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

Not Applicable

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

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

Capital Stock						
Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	5,000,000,000	1,870,940,210*	–	–	1,147,122,226	723,817,984

*Net of treasury shares.

SCHEDULE I

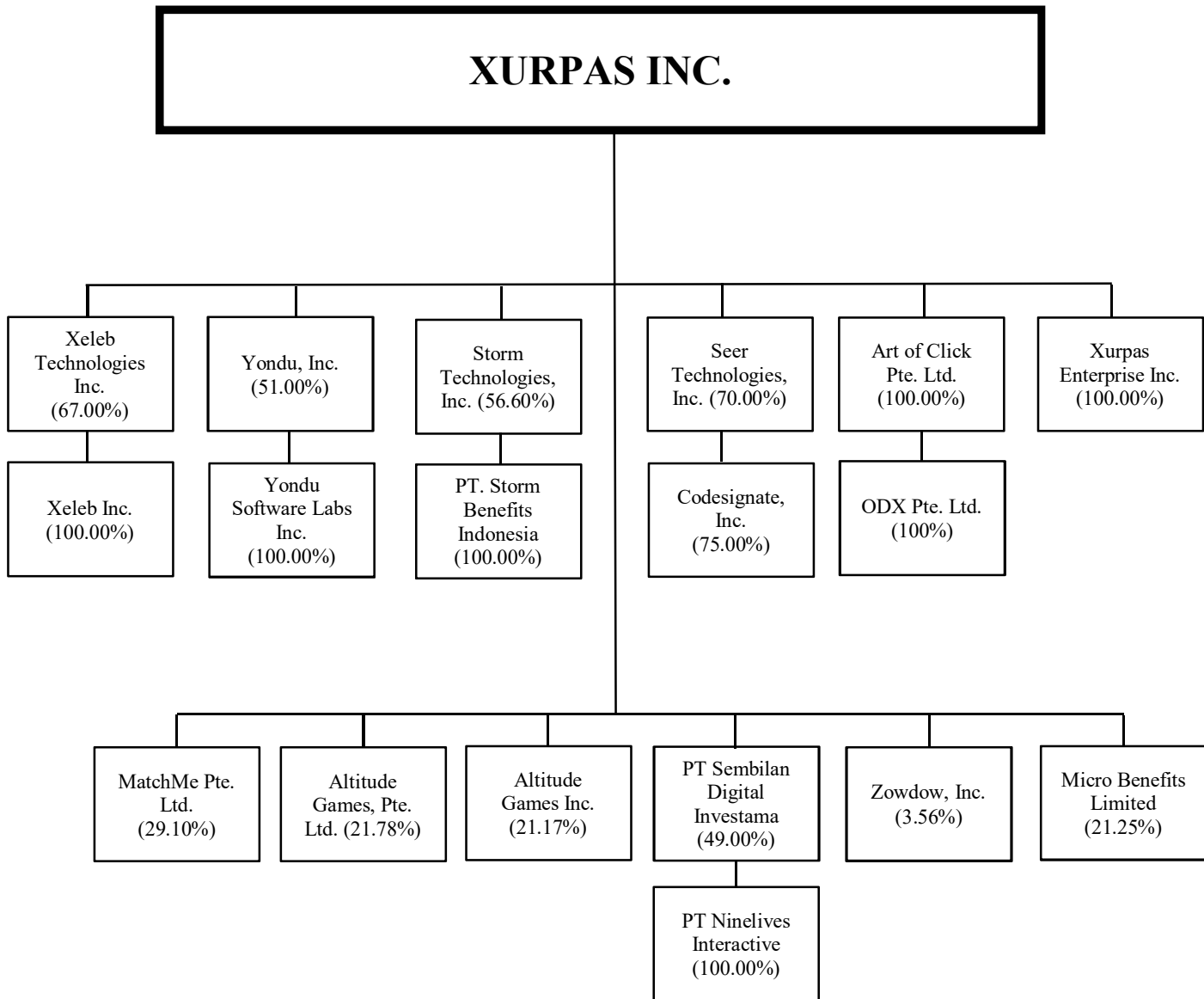
XURPAS INC. AND SUBSIDIARIES

**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION**

Unappropriated Retained Earnings, beginning, as restated	₱299,391,561
Less adjustments:	
Adjustment due to adoption of PFRS 9	4,235,074
Deferred tax assets	(59,998,998)
Fair value adjustments	(248,818,855)
Unappropriated Retained Earnings, as adjusted, beginning	(5,191,218)
Net Income based on the face of AFS	(557,747,690)
Less: Non-actual/unrealized income net of tax	
Amount of provision for deferred tax during the year	59,998,998
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	(394,008)
Fair value adjustment (M2M gains)	248,818,855
Impairment loss	175,846,935
Net Income Actual/Realized	(73,476,910)
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	₱—

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**

DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Estimates and Errors			
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments 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 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases - Incentives			✓
Philippine Interpretation SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets - Web Site Costs			✓

Standards tagged as “Not Applicable” have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2018.

XURPAS INC. AND SUBSIDIARIES**FINANCIAL RATIOS**

Financial Ratios	2018	2017
A. Current ratios		
Current ratios	69%	54%
Quick ratios	64%	51%
B. Debt-to-equity ratios	55%	97%
C. Asset-to-equity ratios	183%	231%
D. Interest rate coverage ratios	(2,045%)	281%
E. Profitability ratios		
Net income (loss) margin	(62%)	2%
Gross margin	9%	31%
Operating margin	(46%)	12%
Return on total assets	(14%)	1%
Return on equity	(22%)	1%



108142019003971



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information _____

SEC Registration No. A200117708
Company Name XURPAS INC
Industry Classification
Company Type Stock Corporation

Document Information

Document ID 108142019003971
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code 17-Q
Period Covered June 30, 2019
No. of Days Late 0
Department CFD
Remarks

COVER SHEET

SEC Registration Number

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Company Name

X	U	R	P	A	S		I	N	C	.	A	N	D	S	U	B	S	I	D	I	A	R	I	E	S	

Principal Office (No./Street/Barangay/City/Town/Province)

7	t	h		F	l	o	o	r	,		C	a	m	b	r	i	d	g	e		C	e	n	t	r	e		1	0
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a	g	e	,		M	a	k	a	t	i		C	i	t	y														

Form Type

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Department requiring the report

S	E	C
---	---	---

Secondary License Type, If Applicable

N	/	A
---	---	---

COMPANY INFORMATION

Company's Email Address

<u>info@xurpas.com</u>

Company's Telephone Number/s

889-6467

Mobile Number

N/A

No. of Stockholders

26

Annual Meeting
Month/Day

2nd Monday of May

Fiscal Year
Month/Day

June 30

CONTACT PERSON INFORMATION

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

Name of Contact Person

Alexander D. Corpuz

Email Address

mar@xurpas.com

Telephone Number/s

889-6467

Mobile Number

N/A

Contact Person's Address

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

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

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

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 June 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 June 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 Six-Month Periods Ended June 30, 2019 and 2018

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

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the Six-Month Periods Ended June 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 June 30, 2019 and December 31, 2018 and performance for the six-month periods ended June 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 six-month period ended June 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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash (Notes 5 and 26)	₱277,803,768	₱177,396,187
Accounts and other receivables (Notes 6 and 26)	533,681,247	530,636,685
Contract assets (Note 7)	20,156,989	9,748,084
Other current assets (Note 9)	65,316,472	57,901,437
Total Current Assets	896,958,476	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)	448,467,544	455,995,470
Property and equipment (Note 11)	114,692,841	59,520,797
Intangible assets (Note 12)	3,594,484,172	3,612,923,684
Pension asset	1,410,282	1,410,282
Deferred tax assets – net	14,186,692	14,186,692
Other noncurrent assets	50,696,538	46,370,777
Total Noncurrent Assets	4,224,413,069	4,190,882,702
	₱5,121,371,545	₱4,966,565,095
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 26)	₱775,184,948	₱654,522,147
Loans payable (Notes 14 and 26)	333,138,585	358,741,481
Contract liabilities (Note 7)	53,537,602	44,498,497
Income tax payable	8,686,665	2,190,193
Other current liabilities (Note 15)	63,452,432	63,753,036
Total Current Liabilities	1,234,000,232	1,123,705,354
Noncurrent Liabilities		
Finance lease - net of current portion	16,826	25,388
Advances from stockholders – net of current portion (Note 21)	150,000,000	–
Deferred tax liabilities – net	347,727,986	352,729,028
Pension liabilities	23,521,092	23,521,092
Total Noncurrent Liabilities	521,265,904	376,275,508
Total Liabilities	1,755,266,136	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)	(674,658,879)	(556,374,537)
Net unrealized loss on financial assets at FVOCI (Note 8)	(44,219,956)	(44,219,956)
Cumulative translation adjustment	40,944,491	34,451,988
Retirement benefit reserve	5,475,312	5,475,312
Equity reserve (Notes 23 and 24)	(402,222,322)	(402,222,322)
Treasury stock (Note 24)	(114,954,275)	(115,464,275)
	2,595,933,618	2,707,215,457
Noncontrolling interests	770,171,791	759,368,776
Total Equity	3,366,105,409	3,466,584,233
	₱5,121,371,545	₱4,966,565,095

See accompanying Notes to Interim Condensed Consolidated Financial Statements

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

	For the six-month period ended		For the three-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
INCOME				
Service income (Note 16)	P590,095,010	P569,594,559	P321,104,203	P268,858,269
Sale of goods	50,052,682	39,875,102	19,529,391	13,582,331
	640,147,692	609,469,661	340,633,594	282,440,600
COST AND EXPENSES				
Cost of services (Note 17)	462,592,499	483,835,847	241,037,599	236,802,619
Cost of goods sold	40,083,674	28,897,761	10,896,374	8,573,038
	502,676,173	512,733,608	251,933,973	245,375,657
GENERAL AND ADMINISTRATIVE EXPENSES (Note 18)	214,472,948	243,538,631	106,786,315	109,508,702
EQUITY IN NET LOSSES OF ASSOCIATES (Note 10)	7,527,926	21,746,414	2,129,892	10,929,165
OTHER CHARGES (INCOME) – NET (Note 19)	20,274,886	20,267,343	10,834,249	4,857,164
	242,275,760	285,552,388	119,750,456	125,295,031
INCOME (LOSS) BEFORE INCOME TAX	(104,804,241)	(188,816,335)	(31,050,835)	(88,230,088)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)	10,552,970	(45,170,190)	7,730,101	(22,518,166)
NET INCOME (LOSS)	(115,357,211)	(143,646,145)	(38,780,936)	(65,711,922)
OTHER COMPREHENSIVE INCOME				
<i>Item that may be reclassified to profit or loss in subsequent periods:</i>				
Cumulative translation adjustment	7,285,582	16,355,307	4,958,169	9,937,841
TOTAL COMPREHENSIVE INCOME (LOSS)	(P108,071,629)	(P127,290,838)	(P33,822,767)	(P55,774,081)

(Forward)

	For the six-month period ended		For the three-month period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income (loss) attributable to:				
Equity holders of Xurpas Inc.	(P118,284,342)	(P137,047,369)	(P47,676,765)	(P61,416,297)
Noncontrolling interests	2,927,131	(6,598,776)	8,895,829	(4,295,625)
	(P115,357,211)	(P143,646,145)	(P38,780,936)	(P65,711,922)
Total comprehensive income (loss) attributable to:				
Equity holders of Xurpas Inc.	(P111,791,839)	(P125,692,066)	(P43,511,656)	(P56,478,460)
Noncontrolling interests	3,720,210	(1,598,772)	9,688,889	704,379
	(P108,071,629)	(P127,290,838)	(P33,822,767)	(P55,774,081)
Earnings (Loss) Per Share (Note 25)				
Basic	(P0.06)	(P0.07)	(P0.03)	(P0.03)
Diluted	(P0.06)	(P0.07)	(P0.03)	(P0.03)

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	June 30	
	2019 (Unaudited)	2018 (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	(118,284,342)	(137,047,369)
Balance at end of period	(790,123,154)	70,219,214
	(674,658,879)	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	6,492,503	11,355,303
Balance at end of period	40,944,491	46,721,431
RETIREMENT BENEFIT RESERVE		
Balance at beginning and end of period	5,475,312	(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	510,000	–
Balance at end of period	(114,954,275)	(115,464,275)
	2,595,933,618	2,650,531,445
NONCONTROLLING INTERESTS		
Balance at beginning of period	759,368,776	834,961,420
Increase in NCI	7,082,805	–
Cumulative translation adjustment	793,079	5,000,004
Net income (loss)	2,927,131	(6,598,776)
Balance at end of period	770,171,791	833,362,648
	₱3,366,105,409	₱3,483,894,093

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

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

	June 30	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	(₱104,804,241)	(₱188,816,335)
Adjustments for:		
Depreciation and amortization (Notes 17 and 18)	45,765,706	31,353,819
Interest expense (Note 19)	18,672,417	12,023,645
Equity in net loss of associates (Note 10)	7,527,926	21,746,414
Provision for impairment loss (Note 18)	1,300,211	1,621,940
Realized foreign exchange loss on sale of cryptocurrencies	447,254	–
Loss on disposal of property and equipment	277,925	–
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)	(10,063)	509,913
Interest income (Notes 5 and 19)	(185,027)	–
Operating income (loss) before changes in working capital	(30,819,825)	(121,866,227)
Changes in working capital		
Decrease (increase) in:		
Accounts and other receivables and contract assets - net	(14,743,471)	154,625,105
Other current assets	(7,415,035)	(29,445,361)
Increase (decrease) in:		
Accounts and other payables	46,042,628	(69,231,309)
Contract liabilities	9,039,105	–
Other current liabilities	(9,378)	(16,055,918)
Net cash generated from (used in) operations	2,094,024	(81,973,710)
Interest received	185,027	305,623
Interest paid	(18,809,358)	(11,055,251)
Income taxes paid	(9,057,540)	(24,399,399)
Net cash used in operating activities	(25,587,847)	(117,122,737)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of cryptocurrencies	2,058,018	–
Proceeds from sale of property and equipment	1,834,105	–
Decrease (increase) in noncurrent assets	(4,325,761)	961,474
Additions to property and equipment (Note 11)	(11,379,247)	(11,810,672)
Net cash provided by (used in) investing activities	(11,812,885)	(10,849,198)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from stockholders (Note 21)	150,000,000	–
Increase in noncontrolling interest	7,082,805	–
Proceeds from loan availments	–	126,455,242
Dividends paid	(299,788)	–
Payment of short-term loan payable (Note 14)	(25,602,896)	(61,354,750)
Net cash provided by financing activities	131,180,121	65,100,492
EFFECT OF FOREIGN CURRENCY EXCHANGE		
RATE CHANGES ON CASH	6,628,192	27,104,766
NET INCREASE (DECREASE) IN CASH	100,407,581	(35,766,677)
CASH AT BEGINNING OF PERIOD	177,396,187	215,254,510
CASH AT END OF PERIOD (Note 5)	₱277,803,768	₱179,487,833

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 August 7, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements of the Group as at June 30, 2019 and for the six-month periods ended June 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 June 30, 2019 and December 31, 2018 and for the six-month periods ended June 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 June 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 June 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
	June 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 enterprise services
Yondu, Inc. (Yondu)	51.00	51.00	enterprise services
Rocket Search Inc. (formerly Yondu Software Labs Inc.) (RSI)	51.00	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	-	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%.

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.

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 six-month period ended June 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:

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

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash on hand and in banks	₱272,409,509	₱177,396,187
Cash equivalents	5,394,259	–
	₱277,803,768	₱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 ₱0.19 million and ₱0.31 million for the six-month periods ended June 30, 2019 and 2018, respectively.

6. Accounts and Other Receivables

This account consists of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade receivables	₱763,530,523	₱771,395,524
Receivable from related parties (Note 21)	10,113,700	5,808,461
Advances to employees	3,500,842	4,764,040
Others	19,322,722	13,693,032
	796,467,787	795,661,057
Less: Allowance for impairment loss	262,786,540	265,024,372
	₱533,681,247	₱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 June 30, 2019 and December 31, 2018, the Group's receivables from GTI amounted to ₱321.27 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:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
At beginning of year	₱265,024,372	₱118,853,129
Provisions (Note 18)	1,300,211	166,083,098
Write-off	–	(16,053,400)
Recovery	–	454,785
Translation adjustments	(3,538,043)	(4,313,240)
	₱262,786,540	₱265,024,372

7. Contract Balances

This account consists of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Contract assets	₱20,156,989	₱9,748,084
Contract liabilities	53,537,602	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:

	June 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:

	June 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 June 30, 2019 and December 31, 2018 are as follows:

	June 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 June 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 ₱3.60 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:

	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Creditable withholding tax	₱27,912,603	₱18,176,998
Input VAT	17,167,649	13,740,143
Prepaid expenses	12,017,280	10,219,745
Refundable deposits	4,985,474	11,437,282
Deferred input VAT	2,515,057	3,494,984
Inventories	718,409	832,285
	₱65,316,472	₱57,901,437

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:

	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Cost		
Balance at beginning and end of period	₱577,561,081	₱575,584,063
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	(7,527,926)	(52,988,467)
Balance at end of period	(140,619,361)	(133,091,435)

(Forward)

	June 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
	₱448,467,544	₱455,995,470

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	
	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Micro Benefits Limited	23.53%	23.53%	₱366,816,459	₱377,307,980
MatchMe Ltd.	28.59	28.59	43,638,911	43,709,443
Altitude Games Pte. Ltd	21.78	21.78	25,605,898	24,339,262
PT Sembilan Digital Investama	49.00	49.00	12,406,276	10,638,785
Altitude Games Inc.	21.17	21.17	–	–
			₱448,467,544	₱455,995,470

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 ₱60.47 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 ₱17.98 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 ₱15.24 million from the said assignment which was subsequently paid in 2015.

As at June 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 ₱10.83 million. The acquisition gave the Parent Company access to PT Ninelives Interactive (“Ninelives”), a mobile content and distribution company in Indonesia, which SDI owns.

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 June 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 ₱84.87 million during the six-month period ended June 30, 2019. Depreciation expense amounted to ₱27.58 million and ₱15.05 million for the six-month periods ended June 30, 2019 and 2018, respectively.

12. Intangible Assets

This account consists of:

June 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	–	–	–	–	(2,685,745)	(2,685,745)
Translation adjustment	–	–	–	–	(72,595)	(72,595)
At end of period	2,544,617,520	1,077,809,700	210,077,553	17,378,812	3,995,866	3,853,879,451
Accumulated amortization						
At beginning of period	–	–	87,763,575	8,593,303	–	96,356,878
Amortization (Note 17)	–	–	16,941,690	1,241,344	–	18,183,034
At end of period	–	–	104,705,265	9,834,647	–	114,539,912
Allowance for impairment	144,855,367	–	–	–	–	144,855,367
Net Book Value	₱2,399,762,153	₱1,077,809,700	₱105,372,288	₱7,544,165	₱3,995,866	₱3,594,484,172

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 June 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 June 30, 2019 and December 31, 2018, the fair value of Bitcoin is valued at USD3,742.70 per unit. For the six-month period ended June 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 six-month periods ended June 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 six-month periods ended June 30, 2019 and 2018, respectively (see Note 17).

13. Accounts and Other Payables

This account consists of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade payables	₱240,542,056	₱179,196,897
Payable to related parties (Note 21)	102,192,948	104,026,002
Accrued expenses	99,376,864	42,658,546
Nontrade payables	55,166,877	55,364,501
Taxes payable	36,740,313	14,869,140
Deferred output VAT	35,605,950	42,673,696
Others	205,559,940	215,733,365
	₱775,184,948	₱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:

	June 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	(25,602,896)	(336,418,974)
	₱333,138,585	₱358,741,481

Interest expense recognized in the consolidated statements of comprehensive income during the six-month periods ended June 30, 2019 and 2018 amounted to ₱14.39 million and ₱12.02 million, respectively (see Note 19).

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

15. Other Current Liabilities

This account consists of:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Dividends payable	₱62,863,545	₱63,163,332
Finance lease liability	588,887	589,704
	₱63,452,432	₱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 ₱590.10 million and ₱569.59 million for the six-month periods ended June 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, GTI, and other telecommunication companies. 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 six-month periods ended June 30, 2019 and 2018 consists of:

	For the six-month period ended		For the three-month period ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Salaries, wages and employee benefits	₱349,395,971	₱314,496,191	₱178,485,424	₱161,330,555
Segment fee and network costs	58,352,003	18,595,120	42,208,066	6,164,879
Depreciation and amortization	18,329,918	16,930,844	9,029,088	8,438,720
Outsourced services	15,759,863	71,992,834	11,943,133	36,377,571
Web hosting	8,775,126	16,729,508	(4,702,316)	6,651,710
Consultancy fees	3,507,782	10,824,073	1,795,135	6,561,611
Rent (Note 20)	2,386,564	5,342,168	(426,011)	3,784,792
Utilities	1,418,989	1,357,920	490,006	991,885
Royalty fees	943,304	23,072,767	673,160	4,072,280
Prizes and winnings	16,499	93,080	16,499	71,300
Commission	2,552	86,405	2,552	86,405
Others	3,703,928	4,314,937	1,522,863	2,270,911
	₱462,592,499	₱483,835,847	₱241,037,599	₱236,802,619

18. General and Administrative Expenses

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

	For the six-month period ended		For the three-month period ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Salaries, wages and employee benefits	₱111,766,525	₱121,592,292	₱54,258,919	₱61,902,585
Depreciation and amortization	27,435,788	14,422,975	13,720,277	7,167,002
Outsourced services	14,339,888	16,318,322	2,488,919	5,696,245
Professional fees	10,167,734	10,665,113	6,893,836	6,825,378
Taxes and licenses	7,683,564	16,418,579	4,349,864	4,206,575
Utilities	6,692,621	9,167,174	3,848,848	4,150,484
Transportation and travel	4,390,642	4,024,269	2,197,998	1,171,302
Rent (Note 20)	3,999,645	19,332,822	2,107,154	8,986,912
Repairs and maintenance	3,533,417	6,281,240	(2,131,198)	2,484,382
Dues and subscription	3,493,761	3,671,614	1,847,007	1,707,509
Entertainment, amusement and recreation	2,347,825	3,467,994	1,241,532	1,255,037
Supplies	2,171,663	2,161,960	1,264,384	1,412,685
Provision for impairment loss (Note 6)	1,300,211	1,621,940	1,300,211	6,524
Insurance	811,816	–	417,736	–
Advertising	632,837	4,592,323	364,244	1,914,705
Seminars and trainings	434,458	563,302	383,302	79,729
Marketing and promotions	153,732	3,170,830	58,988	461,004
Miscellaneous	13,116,821	6,065,882	12,174,294	80,644
	₱214,472,948	₱243,538,631	₱106,786,315	₱109,508,702

19. Other Charges (Income) - Net

This account consists of:

	For the six-month period ended		For the three-month period ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Interest expense	₱18,672,417	₱12,023,645	₱7,668,266	₱6,488,208
Foreign exchange losses	1,795,879	12,331,202	604,636	189,120
Bank charges	512,713	2,146,358	185,236	981,890
Loss on sale of cryptocurrencies	188,067	–	(1,453)	–
Interest income	(185,027)	(305,623)	(129,647)	(151,864)
Other income	(709,163)	(5,928,239)	2,507,211	(2,650,190)
	₱20,274,886	₱20,267,343	₱10,834,249	₱4,857,164

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 ₱6.39 million and ₱24.67 million for the six-month periods ended June 30, 2019 and 2018, respectively (see Notes 17 and 18).

As at June 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 June 30, 2019 and December 31, 2018 follow:

	Terms	Conditions	Outstanding Balance			
			June 30, 2019		December 31, 2018	
			Receivable	Payable	Receivable	Payable
Associate						
Cost of services	Noninterest-bearing	Unsecured	₱–	₱–	₱–	₱19,208
Advances	Noninterest-bearing	Unsecured, no impairment	10,113,700	–	5,808,461	–
			10,113,700	–	5,808,461	19,208
Stockholders						
Payable to directors and officers (a-b)	Interest bearing	Unsecured	–	250,607,698	–	102,421,544
Payable to directors and officers (c)	Noninterest-bearing	Unsecured	–	1,585,250	–	1,585,250
			–	252,192,948	–	104,006,794
			₱10,113,700	₱252,192,948	₱5,808,461	₱104,026,002
Amount / Volume						
			June 30, 2019 (Six Months)	June 30, 2018 (Six Months)	June 30, 2019 (Three Months)	June 30, 2018 (Three Months)
Associate						
Cost of services			₱–	₱–	₱–	₱–
Advances			4,305,239	–	255,723	–
			4,305,239	–	255,723	–
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 six-month periods ended June 30, 2019 and 2018, the Group recognized "Outsourced services" under "Cost of services" amounting to nil in relation to the aforementioned transaction. As at June 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 June 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 June 30, 2019 and December 31, 2018, outstanding balance amounted to ₱4.60 million 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 June 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 founders amounting to ₱150.00 million subject to 5.50% interest rate per annum payable in three (3) years from date of agreement. The Group recognized interest expense amounting to ₱1.38 million under “Other income (charges)” in its consolidated statements of comprehensive income. As at June 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 June 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 six-month periods ended June 30, 2019 and 2018, respectively.

22. Income Taxes

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

	June 30	
	2019 (Unaudited)	2018 (Unaudited)
Current	₱15,524,933	₱15,550,079
Deferred	(5,001,013)	(60,745,521)
Final	29,050	25,252
	₱10,552,970	(₱45,170,190)

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
	<u>139,926,434</u>

Liabilities	
Accounts and other payables	20,965,139
Deferred tax liability	1,228,832
Loans payable	6,628,000
	<u>28,821,971</u>
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	<u>₱190,889,553</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 Storm	₱110,123,616
Cash paid	135,366,761
Net cash outflow	<u>₱25,243,145</u>

From February 26 to December 31, 2015, the Group's share in revenue and net loss of Storm amounted to ₱80.27 million and ₱28.81 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱927.83 million, while the Group's net income would have been ₱226.47 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 ₱18.00 million. Codesignate is a 75% owned subsidiary of Seer.

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

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

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

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

Assets	
Cash	₱3,706,340
Receivables	29,735,813
Other current assets	7,297,243
Property and equipment	3,381,984
Intangible assets	1,054,205
Deferred tax asset	5,562,638
Other noncurrent asset	2,886,447
	<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
	<hr/>
	2,056,453,089
Liabilities	
Accounts and other payables	582,669,211
Income tax payable	41,541,943
Pension liability	6,514,740
Deferred tax liability	355,471,170
Other long-term liabilities	3,900,000
	<hr/>
	990,097,064
Net assets	1,066,356,025
Non-controlling interests in Yondu	706,503,943
	<hr/>
Total net assets acquired	359,852,082
Goodwill	540,147,918
	<hr/>
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
	<hr/>
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

Xeieb 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. Equity

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

	June 30, 2019	December 31, 2018
	(Unaudited)	(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	63,570,642	63,985,642
Value of shares issued	₱193,492,585	₱193,492,585
Value of treasury shares	(₱114,954,275)	(₱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 ₱170.00 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 ₱170.00 million. A total of ₱88.82 million has been used as of March 31, 2017. Accordingly, the balance of ₱81.18 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 ₱0.048 per share, or the aggregate amount of ₱86.27 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.	₱45,000,000	₱3,506,647	(₱41,493,353)
Storm Technologies Inc.	10,002,330	2,382,396	(7,619,934)
Xeleb Inc.	1,650,000	7,038,398	5,388,398
	<u>₱56,652,330</u>	<u>₱12,927,441</u>	<u>(₱43,724,889)</u>

In 2017, a reserve amounting to ₱358.50 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 ₱170.00 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 ₱71.51 million.

In January and February 2017, the Parent Company acquired 2,154,500 shares for ₱17.30 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 ₱88.82 million.

On July 18, 2017, the Parent Company reacquired 53,298,242 common shares from Allix for a total amount US\$532,983 or ₱26.65 million (see Note 23).

On April 8, 2019, the Parent Company issued 415,000 shares taken from its treasury shares for a price of ₱1.23 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 June 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:

	June 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 June 30, 2019 and December 31, 2018.

25. Earnings Per Share

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

	<u>For the six-month period ended</u>		<u>For the three-month period ended</u>	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Net income (loss) attributable to the equity holders of the Parent Company	(₱118,284,342)	(₱137,047,369)	(₱47,676,765)	(₱61,416,297)
Weighted average number of outstanding shares	1,871,130,514	1,848,263,812	1,871,130,514	1,848,263,812
Basic earnings per share	(₱0.06)	(₱0.07)	(₱0.03)	(₱0.03)
Diluted earnings per share	(₱0.06)	(₱0.07)	(₱0.03)	(₱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

26. 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 June 30, 2019 and December 31, 2018 were classified under Level 2 (see Note 8).

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

As at June 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 six-month period ended June 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 June 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 June 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 June 30, 2019 and December 31, 2018 are based on contractual undiscounted payments.

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

27. 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 six-month periods ended June 30, 2019 and 2018:

2019 (Unaudited)

	Mobile consumer services	Enterprise service	Other services	Intersegment Adjustments	Consolidated
INCOME					
Service income	₱20,236,388	₱578,154,406	₱1,931,466	(₱10,227,250)	₱590,095,010
Sale of goods	–	–	50,052,682	–	50,052,682
	20,236,388	578,154,406	51,984,148	(10,227,250)	640,147,692
COST AND EXPENSES	(110,354,602)	(533,297,493)	(73,740,742)	243,716	(717,149,121)
Equity in net losses of associates	–	–	–	(7,527,926)	(7,527,926)
Other expenses	(8,896,560)	(2,626,858)	(5,016,603)	(3,734,865)	(20,274,886)
	(99,014,774)	42,230,055	(26,773,197)	(21,246,325)	(104,804,241)
Provision for (benefit from) income tax	(28,690)	(14,518,483)	(2,199)	3,996,402	(10,552,970)
Net loss	(₱99,043,464)	₱27,711,572	(₱26,775,396)	(₱17,249,923)	(₱115,357,211)
Net loss attributable to:					
Equity holders of Xurpas Inc.					(₱118,284,342)
Noncontrolling interests					2,927,131
					(₱115,357,211)

2018 (Unaudited)

	Mobile consumer services	Enterprise service	Other services	Intersegment Adjustments	Consolidated
INCOME					
Service income	₱211,821,300	₱386,524,764	₱2,994,602	(₱31,746,107)	₱569,594,559
Sale of goods	–	–	39,875,102	–	39,875,102
	211,821,300	386,524,764	42,869,704	(31,746,107)	609,469,661
COST AND EXPENSES	(288,855,395)	(404,189,712)	(90,514,871)	27,287,739	(756,272,239)
Equity in net loss of associates	–	–	–	(21,746,414)	(21,746,414)
Other income (expenses)	(18,395,241)	(624,435)	(2,129,889)	882,222	(20,267,343)
	(95,429,336)	(18,289,383)	(49,775,056)	(25,322,560)	(188,816,335)
Provision for (benefit from) income tax	22,205,842	4,192,714	14,775,232	3,996,402	45,170,190
Net income (loss)	(₱73,223,494)	(₱14,096,669)	(₱34,999,824)	(₱21,326,158)	(₱143,646,145)
Net income attributable to:					
Equity holders of Xurpas Inc.					(₱137,047,369)
Noncontrolling interests					(6,598,776)
					(₱143,646,145)

28. Events after Reporting Date

On July 4, 2019, the board of directors of Parent Company approved the issuance of 475,000 shares taken from its treasury shares for a price of ₱1.16 per share.

29. Approval of Financial Statements

The unaudited interim condensed consolidated financial statements of the Group as at June 30, 2019 and December 31, 2018 and for the six-month periods ended June 30, 2019 and 2018 were approved and authorized for issue by the BOD on August 7, 2019.

AGING OF RECEIVABLES

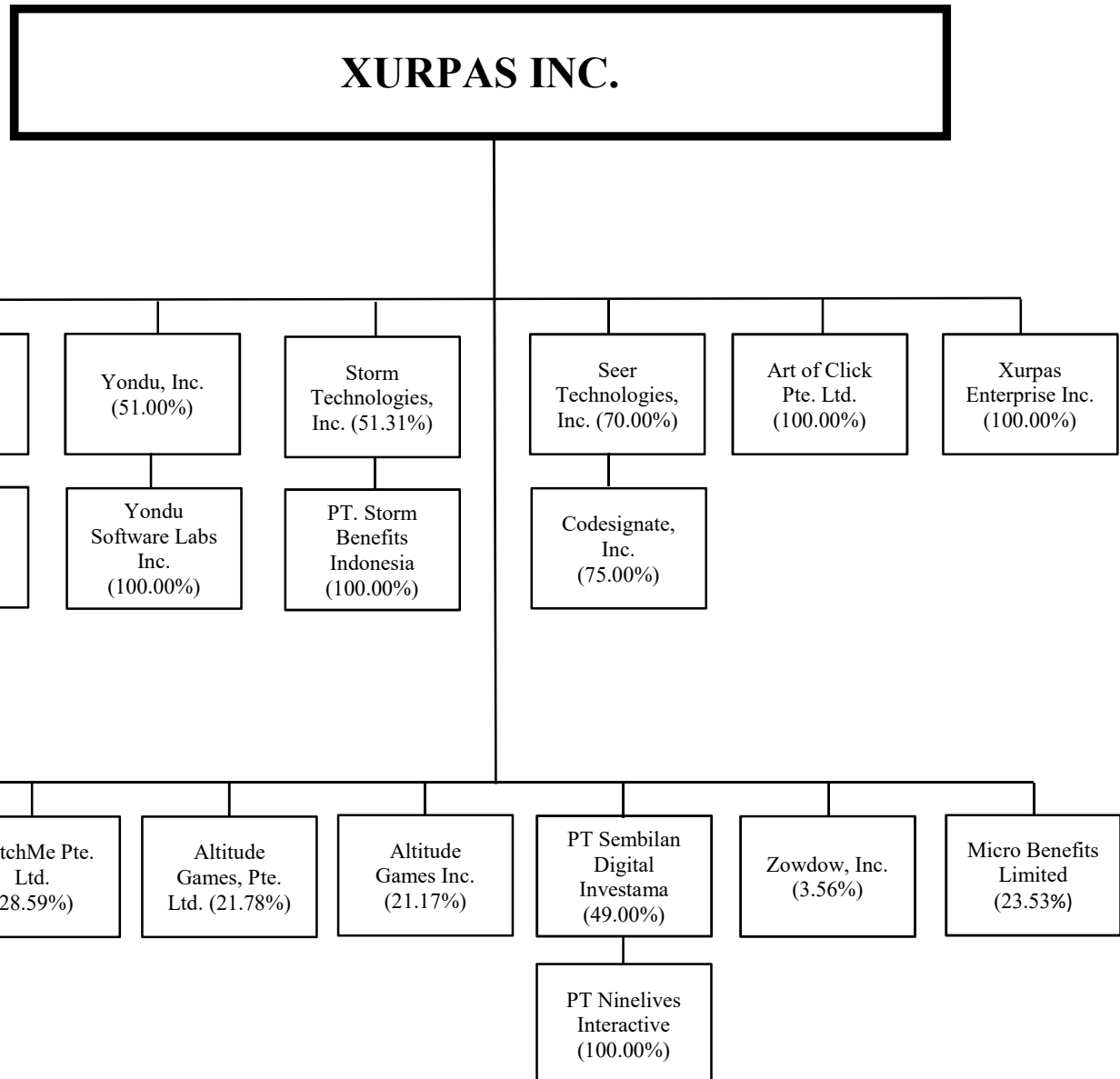
The aging analysis of accounts receivable presented per class follows:

June 30, 2019

	Current	Days past due				Total
		1 to 30 days	31 to 60 days	61 to 90 days	>90 days	
Trade receivable	₱275,657,120	₱60,555,841	₱35,350,586	₱35,915,893	₱356,051,083	₱763,530,523
Receivable from related parties	10,113,700	–	–	–	–	10,113,700
Advances to employees	3,500,842	–	–	–	–	3,500,842
Others	19,322,722	–	–	–	–	19,322,722
	₱308,594,384	₱60,555,841	₱35,350,586	₱35,915,893	₱356,051,083	₱796,467,787

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 June 30, 2019:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 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 June 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 June 30, 2019		Adopted	Not Adopted	Not Applicable
PFRS 10	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	
	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 June 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 June 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 June 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 June 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 June 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	(P378,410,874)
Add 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	(54,122,590)
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	(54,122,590)
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	June 30, 2019	December 31, 2018
A. Current ratios		
Current ratios	73%	69%
Quick ratios	67%	64%
B. Debt-to-equity ratios	68%	55%
C. Asset-to-equity ratios	197%	183%
D. Interest rate coverage ratios	(461%)	(2,045%)
E. Profitability ratios		
Net income margin	(18%)	(62%)
Gross margin	21%	9%
Operating margin	(6%)	(46%)
Return on total assets	(2%)	(14%)
Return on equity	(29%)	(22%)

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

Total revenues of the Group increased by 5%, from ₱609.47 million in first half 2018 to ₱640.15 million in first half 2019.

In the first half of 2019, the Group saw its revenues driven by the Enterprise services which now accounts for 89% of total revenues. The segment’s revenues grew by ₱189.68 million or 50% from first half 2018 vis-à-vis the same period in 2019. Other services also contributed to the growth as it increased by 22% from ₱42.74 million to ₱51.99 million over the same period.

The 50% increase in enterprise revenues was brought about by the 52% increase in Yondu’s enterprise revenues from ₱350.61 million in 1H2018 to ₱534.27 million in 1H2019. Likewise, Xurpas Parent’s refocus on the enterprise segment, through its subsidiary Xurpas Enterprise Inc. (XEI), has shown modest results, as the first half 2019 revenues increased by 2% from ₱25.61 million in 1H2018 to ₱26.05 million.

The ongoing cost-cutting initiatives of Xurpas Parent and its subsidiaries (except Yondu) have shown results as overall cost of services decreased by 4% (from ₱483.84 million in the first half of 2018 to ₱462.59 million of the comparable period in 2019). On the other hand, overall, the general and administrative expenses (GAEX) decreased from ₱243.54 million in 1H2018 to ₱214.47 million in 1H2019 or by 12%. Isolating Yondu, the business growth of which, led to 36% increase in its cost of services and 22% in its GAEX, Xurpas Parent and the other subsidiaries in the group saw its cost of services decrease by 49%, and GAEX decrease by 46%.

As a result of the increase in the revenues and decrease in expenses, the resulting consolidated losses of ₱115.36 million in the first half of 2019 was a marked improvement from first half 2018 net loss of ₱143.65 million.

Financial Summary

Key Financial Data In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	569.09	89%	379.42	62%	189.68	50%
Mobile consumer services	19.07	3%	187.31	31%	(168.25)	-90%
Other services	51.99	8%	42.74	7%	9.25	22%
<i>Total Revenues</i>	640.15	100%	609.47	100%	30.68	5%
Cost of Services	462.59	72%	483.84	79%	(21.24)	-4%
Cost of Goods Sold	40.08	6%	28.90	5%	11.18	39%
Gross Profit	137.47	21%	96.74	16%	40.74	42%
General and Administrative Expenses	214.47	34%	243.54	40%	(29.07)	-12%
Equity in Net Loss of Associates	7.53	1%	21.75	4%	(14.22)	-65%
Other charges - net	20.27	3%	20.27	3%	-	0%
Loss Before Income Tax	(104.80)	-16%	(188.82)	-31%	84.02	-44%
Provision for (Benefit from) Income Tax	10.55	2%	(45.17)	-7%	55.72	-123%
Net Loss	(115.36)	-18%	(143.65)	-24%	28.29	-20%
Other Comprehensive Income	7.29	1%	16.36	3%	(9.07)	-55%
Total Comprehensive Loss	(108.07)	-17%	(127.29)	-21%	19.23	-15%

	June 30, 2019 Amount	December 31, 2018 Amount	Amount Change	% Increase (Decrease)
Total Assets	5,121.37	4,966.57	154.81	3%
Total Liabilities	1,755.27	1,499.98	255.29	17%
Total Equity	3,366.11	3,466.58	(100.47)	-3%

Total revenues increased by ₱30.68 million or 5%, from ₱609.47 million in the first half of 2018, to ₱640.15 million for the comparable period in 2019. Group revenues were still mainly driven by enterprise services, comprising 89% of the total revenue, compared to 62% in the 1H2018.

The blended cost of services decreased by 4% from ₱483.84 million for the six-month period ended June 30, 2018 to ₱462.59 million for the comparable period in 2019. Cost of goods sold attributable to other services was ₱40.08 million for the six-month period ended June 30, 2019 compared to ₱28.90 million in the same period in 2018, an increase of 39% or ₱11.18 million.

Gross profit margins on total revenues, for the period ended June 30, 2019 was at 21%, an increase from the same period last year at 16%. Gross profit increased by 42% from ₱96.74 million for the first half of 2018 to ₱137.47 million for the same period in 2019.

General and administrative expenses decreased by 12%, from ₱243.54 million for the first half of 2018 to ₱214.47 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 ₱7.53 million for the six-month period ended June 30, 2019; a 65% improvement from the ₱21.75 million share in net loss of the associate companies for the first half of 2018.

Loss before income tax improved by 44% from ₱188.82 million for the first half of 2018 to ₱104.80 million for the same period in 2019.

Provision for income taxes during the first half of 2019 amounted to ₱10.55 million (without the utilization of deferred tax assets), while benefit from income tax amounting to ₱45.17 million was recognized in the same period in 2018. (If there was no utilization of deferred tax assets in 2018, the comparable provision for tax was ₱12.63 million.) Overall, the net loss for the Group decreased from ₱143.65 million for the first half of 2018 to ₱115.36 million over the same period in 2019; a decrease of 20%.

Consolidated total assets as of June 30, 2019 amounted to ₱5,121.37 million, an increase of 3% from ₱4,966.57 million as of December 31, 2018. Consolidated total liabilities increased by 17% from ₱1,499.98 million as of December 31, 2018 to ₱1,755.27 million in June 30, 2019, due mainly to the increase in accounts and other payables. Consolidated total equity decreased by 3% over the same period, from ₱3,466.58 million to ₱3,366.11 million, resulting from the net loss incurred during the period.

Segment Financial Performance

For the 6-month period ended June 30, 2019 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	20.24	578.15	1.93	(10.23)	590.10
Revenue from sale of goods	-	-	50.05	-	50.05
Total Service Revenues	20.24	578.15	51.98	(10.23)	640.15
Operating expenses	110.35	533.30	73.74	(0.24)	717.15
Equity in net loss of associates	-	-	-	7.53	7.53
Other charges - net	8.90	2.63	5.02	3.73	20.27
Total Expenses	119.25	535.92	78.76	11.02	744.95
Operating Income (Loss)	(99.01)	42.23	(26.77)	(21.25)	(104.80)
Provision from income tax	(0.03)	(14.52)	(0.00)	4.00	(10.55)
Net Income (Loss)	(99.04)	27.71	(26.78)	(17.25)	(115.36)

For the six-month period ended June 30, 2019, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱20.24 million, ₱99.01 million and ₱99.04 million, respectively. Enterprise services had an operating income of ₱42.23 million and net income of ₱27.71 million from revenues of

₱578.15 million. The other services segment had revenues of ₱51.98 million, ending up with an operating loss of ₱26.78 million.

Profitability

For the six-month period ended June 30, 2019 compared with the six-month period ended June 30, 2018

Revenues

The consolidated revenues of the Group for the six-month period ended June 30, 2019 amounted to ₱640.15 million, an increase of 5% from ₱609.47 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

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	569.09	89%	379.42	62%	189.68	50%
Mobile consumer services	19.07	3%	187.31	31%	(168.25)	-90%
Other services	51.99	8%	42.74	7%	9.25	22%
<i>Total Revenues</i>	640.15	100%	609.47	100%	30.68	5%

Revenues from enterprise services (which accounts for 89% of total revenues) increased by 50% in June 30, 2019, to ₱569.09 million from ₱379.42 million in June 30, 2018. On the other hand, revenues from the mobile consumer services segment for the six-month period ended June 30, 2019 amounted to ₱19.07 million, a decrease of 90% from the previous year’s same period level of ₱187.31 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 ₱51.99 million in the first half of 2019, higher by 22% from the previous level at ₱42.74 million over the same period last year.

Expenses

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	462.59	65%	483.84	64%	(21.24)	-4%
Cost of Goods Sold	40.08	5%	28.90	4%	11.18	39%
General and Administrative Expenses	214.47	30%	243.54	32%	(29.07)	-12%
<i>Total Expenses</i>	717.15	100%	756.27	100%	(39.12)	-5%

The Group's consolidated expenses during the six-month period ended June 30, 2019 amounted to ₱717.15 million, a 5% decrease from the same period of the previous year at ₱756.27 million. For the first half of 2019, cost of services accounted for the bulk of expenses, totaling ₱462.59 million or 65% of the Group's consolidated expenses. For the same period in 2018, cost of services amounted to ₱483.84 million, which comprised 64% of overall expenses.

Cost of Services

In PhP Millions	For the 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	349.40	76%	314.50	65%	34.90	11%
Segment fee and network costs	58.35	13%	18.60	4%	39.76	214%
Depreciation and amortization	18.33	4%	16.93	3%	1.40	8%
Others	36.51	7%	133.81	28%	(97.30)	-73%
<i>Total Expenses</i>	462.59	100%	483.84	100%	(21.24)	-4%

Cost of services totaling ₱462.59 million as of June 30, 2019, was mainly driven by expenses relating to salaries, wages, and employee benefits. Of the total cost of services for the period, 75% is attributable to Yondu.

Cost of Goods Sold

For six-month period ended June 30, 2019, cost of goods sold took up 5% of the Group's consolidated expenses, amounting to ₱40.08 million. This figure was an increase of 39% from its level at ₱28.90 million in June 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 6 months ended June 30					
	2019		2018		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	111.77	52%	121.59	50%	(9.83)	-8%
Depreciation and amortization	27.44	13%	14.42	6%	13.01	90%
Outsourced services	14.34	7%	16.32	7%	(1.98)	-12%
Others	60.92	28%	91.21	37%	(30.28)	-33%
<i>Total Expenses</i>	214.47	100%	243.54	100%	(29.07)	-12%

General and administrative expenses relating to the Group's operations, for the first half of 2019 amounted to ₱214.47 million, lower by 12% compared to previous year's same period level of ₱243.54 million. Salaries, wages, and employee benefits was ₱111.77 million or 52% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱121.59 million for the same period in 2018. The next biggest cost component in June 30, 2019 was depreciation and amortization amounting to ₱27.44 million or 13% of total GAEX. Of the total GAEX for the period, 64% is attributable to Yondu.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the six-month period ended June 30, 2019, amounted to ₱7.53 million; 65% lower than the ₱21.75 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 six-month period ended June 30, 2019 and the significant reduction in the loss of Microbenefits over the period.

Other Charges – net

For the first half of 2019, the Group recognized other net charges amounting to ₱20.27 million. This account mainly pertains to interest expense, foreign exchange gains and losses and bank charges.

Loss before Income Tax

The Group's net loss before taxes for the six-month period ended June 30, 2019 was ₱104.80 million. The net loss before taxes for the Group declined by 44% or ₱84.02 million from the same period ended June 30, 2018, which posted a figure of ₱188.82 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 six-month period ended June 30, 2019 amounting to ₱10.55 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 June 30, 2019, changes in unrecognized DTA amounted to ₱36.09 million.

For the six-month period ended June 30, 2018, the Group recognized benefit from income tax amounting to ₱45.17 million.

Net Loss

The Group posted a consolidated net loss of ₱115.36 million for the six-month period ended June 30, 2019, a decrease of 20% from the previous year's same period at ₱143.65 million.

Pro-forma net loss showing a 43% improvement is shown below had the Group opted not to recognize DTA in the same period in 2018:

In PhP Millions	For the six-month period ended June 30	
	2019	2018
	Amount	Amount
Loss before income tax	(104.80)	(188.82)
Provision for income tax	10.55	12.63
Net Loss	(115.36)	(201.45)

Total Comprehensive Income (Loss)

As of June 30, 2019, the Group's total comprehensive loss amounted to ₱108.07 million, a decrease of 15% compared to total comprehensive loss of ₱127.29 million as at June 30, 2018.

Financial Position

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

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱277.80 million as at June 30, 2019, a net increase of 57% or ₱100.41 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.

Accounts and Other Receivables

The Group's consolidated accounts and other receivables amounted to ₱533.68 million and ₱530.64 million as at June 30, 2019 and December 31, 2018, respectively, representing an increase of ₱3.04 million. In June 30, 2019, trade receivables were valued at ₱763.53 million, whereby Yondu and Art of Click account for ₱467.05 million (61% of the total) and ₱243.80 million (32% of the total), respectively. However, against the total accounts receivables of ₱796.47 million there was an allowance for impairment/doubtful accounts amounting to ₱262.79 million, resulting to the net receivables of ₱533.68 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 ₱20.16 million as of June 30, 2019, an increase of ₱10.41 million or 107% from its previous level on December 31, 2018 at ₱9.75 million.

Other Current Assets

The Group's consolidated other current assets totaled ₱65.32 million as of June 30, 2019, an increase of ₱7.42 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 June 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 June 30, 2019, the Group's consolidated investment in associates amounted to ₱448.47 million, a 2% 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. (₱25.60 million), MatchMe (₱43.64 million), PT Sembilan Digital Investama (₱12.41 million), and Micro Benefits Limited (₱366.82 million).

Property and Equipment

The Group's consolidated property and equipment was ₱114.69 million in June 30, 2019 vis-à-vis ₱59.52 million in December 31, 2018, or an increase of 93%. This was the net result of additions worth ₱11.38 million, addition resulting from adoption of PFRS 16 amounting to ₱73.49 million and depreciation expense amounting to ₱27.58 million for the six-month period ended June 30, 2019. 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 ₱3,594.48 million as at June 30, 2019 were recognized in relation to the Group's acquisitions and investments. The amortized amount was ₱18.44 million or 1% decrease of the December 31, 2018 figure at ₱3,612.92 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of June 30, 2019, goodwill is at ₱2,399.76 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 June 30, 2019, customer relationship is valued at ₱1,077.81 million.
- 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 June 30, 2019, developed software net book value is at ₱105.37 million. Amortization of developed software for the six-month period ended June 30, 2019 amounted to ₱16.94 million.
- Cryptocurrencies pertain to units of Bitcoin and Ethereum held by the Group as at June 30, 2019 valued at ₱4.00 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of June 30, 2019, leasehold rights net book value is at ₱7.54 million. Amortization of leasehold rights for the six-month period ended June 30, 2019 amounted to ₱1.24 million.

Pension Asset

The Group's recorded pension asset is at ₱1.41 million in June 30, 2019, which was unchanged from its levels in December 31, 2018.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱14.19 million as at June 30, 2019, which was the same level as at December 31, 2018.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱50.70 million as of June 30, 2019. This figure is 9% higher than the value posted as of December 31, 2018 at ₱46.37 million. These are primarily rental and other deposits amounting to ₱25.74 million and ₱24.96 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱775.18 million as at June 30, 2019 was a 18% or ₱120.66 million increase from its December 31, 2018 figure of ₱654.52 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱240.54 million (₱91.26 million accounted for by Art of Click and ₱120.72 million from Yondu), payable to related parties at ₱102.19 million (from Xurpas, as payable to directors and officers), accrued expenses at ₱99.38 million (₱86.86 million from Yondu), nontrade payables at ₱55.17 million, taxes payable at ₱36.74 million, deferred output VAT at ₱35.61 million and other payables at ₱205.55 million.

Loans Payable

The Group recorded ₱333.14 million in current loans in June 30, 2019 and ₱358.74 million in December 31, 2018. This is mainly attributable to the loans of the Group which are interest-bearing and short-term.

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 June 30, 2019 amounted to ₱53.54 million, an increase of 20% from the December 31, 2018 figure of ₱44.50 million.

Income Tax Payable

The Group's consolidated income tax payable as at June 30, 2019 amounted to ₱8.69 million, an increase of 297% from the December 31, 2018 figure of ₱2.19 million.

Other Current Liabilities

The Group's other current liabilities amounted to ₱63.45 million in June 30, 2019 compared to ₱63.75 million in 2018, a decrease of 0.5%.

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 June 30, 2019 and December 31, 2018, respectively.

Advances from stockholders – net of current portion

This account pertains to the loan agreement entered into by the Parent Company on April 29, 2019 with its founders amounting to ₱150.00 million, subject to 5.50% interest rate per annum payable in three (3) years from date of agreement.

Deferred Tax Liability - net

As of June 30, 2019, the deferred tax liability (net) was at ₱347.73 million, a decrease of 1% or ₱5.00 million from ₱352.73 million as of December 31, 2018. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

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

Equity

Total Equity

The Group's total equity as of June 30, 2019 was at ₱3,366.11 million, a 3% decrease from its December 31, 2018 level at ₱3,466.58 million. The net decrease in total equity was a result of the net loss incurred by the Group during the period. Retained earnings decreased by ₱118.28 million or 21% in June 30, 2019.

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 the Parent Company and Seer 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 6 months ended June 30	
	2019	2018
	Amount	Amount
Net cash provided by (used in) Operating Activities	(25.59)	(117.12)
Net cash provided by (used in) Investing Activities	(11.81)	(10.85)
Net cash provided by (used in) Financing Activities	131.17	65.10
Effect of foreign currency exchange changes in cash	6.63	27.10
Net increase (decrease) in cash	100.40	(35.77)
Cash at beginning of period	177.40	215.25
Cash at end of period	277.80	179.49

Cash Flows Provided by Operating Activities

For the first half of 2019, operating loss of ₱30.82 million was coupled with the corresponding increase in account receivables and account payables for a resulting ₱2.09 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱25.59 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for the first half of 2019 was ₱11.81 million compared to ₱10.85 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 six-month period ended June 30, 2019 was ₱131.1 million; compared to ₱65.10 million provided for the six-month period ended June 30, 2018. The cash flow provided by financing activities were mainly from advances from stockholders amounting ₱150.00 million, payment of dividends and loans.

Capital Expenditure

The Group's capital expenditures for the six-month period ended June 30, 2019 and the year ended December 31, 2018 amounted to ₱76.49 million and ₱18.35 million, respectively.

Key Financial Data In PHP Millions	June 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 six-month periods ended June 30		For the year ended December 31
	2019	2018	2018
Liquidity Ratios			
Current Ratio	73%	50%	69%
Quick Ratio	67%	46%	64%
Asset-to-Equity Ratio	197%	218%	183%
Profitability Ratios			
Net Income Margin	-18%	-22%	-62%
Gross Margin	21%	16%	9%
Operating Margin	-6%	-24%	-46%
Return on Total Assets	-2%	-2%	-14%
Return on Equity	-29%	-4%	-22%
Debt Ratios			
Debt-to-Equity Ratio	0.68x	0.86x	0.55x
Interest Coverage Ratio	-4.61x	-13.10x	-20.45x

Current Ratios

Current Ratio and Quick Ratio in the six-month period ended June 30, 2019 were 73% and 67%, respectively, an increase from their respective 69% and 64% figures during the full year of 2018. The increase in both ratios was primarily from the significant increase in current assets of the Group for that period.

Asset-to-Equity Ratio

The increase in the asset-to-equity ratio from 183% in December 31, 2018 to 197% in June 30, 2019 resulted from the decrease in equity due to net loss incurred during the period and increase in total assets as a result of increase in cash due to additional advances from stockholders and increase in property and equipment primarily due to adoption of PFRS 16.

Profitability Ratios

Profitability margins improved from December 31, 2018, due to the continuous cost-cutting initiatives of the Group. The result is an increase in Gross Profit Margin (21%), Operating Margin (-6%), and Return on Total Assets (-2%); and decrease in Net Loss Margin (18%) and Return on Equity (-29%).

Debt Ratios

Debt to Equity in June 30, 2019 was at 0.68x compared to 0.55x as at December 31, 2018. The increase in the gearing ratio was attributed to significant increase in liabilities and lower total equity value in June 30, 2019 compared to the previous year. Interest coverage ratio in June 30, 2019 was at -4.61x 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	$\frac{\text{Current assets}}{\text{Current liabilities}}$
2. Quick ratio	$\frac{\text{Current assets} - \text{Other current assets}}{\text{Current liabilities}}$

Asset-to-equity Ratio

$$\frac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$$

Profitability Ratios

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

	Average total equity attributable to the Parent Company
Debt Ratios	
1. Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total equity attributable to Parent Company}}$
2. Interest coverage ratio	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines 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. The Group's financial challenges in 2018 are being addressed through the following: venture into new revenue potentials, continuing cost cutting measures, external financing with the aid of a third party financial advisor, and advances from stockholders to fund projects and general corporate purposes.
- 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.

PART II--OTHER INFORMATION

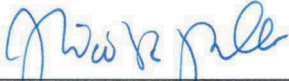
There are no other information for this period not previously reported in SEC Form 17-C that needs to be reported in this section.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, on AUG 14 2019.

Issuer: **XURPAS INC.**


By:



NICO JOSE S. NOLLEDO
Chairman of the Board



ALEXANDER D. CORPUZ
President



FERNANDO JUDE F. GARCIA
Treasurer