COVER SHEET

SEC Registration Number

A	2	0	0	1	1	7	7	0	8	

Company Name

XURPAS INC. AND SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town/Province)

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
24	**2nd week of May**	**June 30, 2017**

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Nico Jose S. Nolledo	**nix@xurpas.com**	**889-6467**	**N/A**

Contact Person's Address

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

***Note*: *1*.** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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, 2017**

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 **1227**
7. Address of issuer's principal office 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	Number of Shares of Common Stock Outstanding
Common Shares	**1,856,952,746**

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, 2017 (with Comparative Audited Consolidated Statements of Financial Position as at December 31, 2016)

Unaudited Interim Condensed Consolidated Statements of Income and Comprehensive Income
For the Six-Month Periods Ended June 30, 2017 and 2016

Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the Six-Month Periods Ended June 30, 2017 and 2016

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the Six-Month Periods Ended June 30, 2017 and 2016

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 of June 30, 2017 and December 31, 2016 and performance for the six-month periods ended June 30, 2017 and 2016. 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, 2017 should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes.

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 August 9, 2017.

Issuer: **XURPAS INC.**

By:

NICO JOSE S. NOLLEDO
Chairman and Chief Executive Officer

RAYMOND GERARD S. RACAZA
President and Chief Operating Officer

ALEXANDER D. CORPUZ
Chief Finance Officer and Chief Compliance Officer

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
Current Assets		
Cash (Notes 5 and 24)	**₱530,415,091**	₱428,517,653
Financial assets at fair value through profit or loss (Notes 7 and 24)	**–**	335,915,489
Accounts and other receivables (Notes 6 and 24)	**926,385,997**	956,902,412
Available-for-sale financial assets (Notes 8 and 24)	**108,428,123**	108,428,123
Other current assets	**92,594,653**	52,628,844
Total Current Assets	**1,657,823,864**	1,882,392,521
Noncurrent Assets		
Available-for-sale financial assets – net of current portion (Notes 8 and 24)	**44,544,956**	44,544,956
Investments in associates (Note 9)	**512,298,520**	534,530,362
Property and equipment (Note 10)	**74,963,427**	80,527,763
Intangible assets (Note 11)	**3,232,719,868**	3,239,022,313
Pension asset	**2,386,458**	2,386,458
Deferred tax assets – net	**72,190,387**	55,441,948
Other noncurrent assets	**51,447,145**	55,756,949
Total Noncurrent Assets	**3,990,550,761**	4,012,210,749
	₱5,648,374,625	₱5,894,603,270
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 12 and 24)	**₱389,073,595**	₱413,725,647
Loans payable (Notes 13 and 24)	**3,000,000**	3,000,000
Income tax payable	**77,039,158**	64,435,355
Liability for written put option (Notes 21 and 24)	**864,705,965**	864,705,965
Contingent liability (Note 24)	**374,333,642**	112,556,901
Other current liabilities (Note 14)	**88,383,101**	127,715,600
Total Current Liabilities	**1,796,535,461**	1,586,139,468
Noncurrent Liabilities		
Loans payable - net of current portion (Note 13)	**13,798,370**	13,998,370
Finance lease - net of current portion	**1,163,602**	1,163,602
Contingent liability - net of current portion (Note 24)	**23,314,981**	103,841,826
Deferred tax liabilities – net	**344,170,735**	346,321,870
Pension liabilities	**29,221,172**	28,906,894
Total Noncurrent Liabilities	**411,668,860**	494,232,562
Total Liabilities	**2,208,204,321**	2,080,372,030
Equity		
Equity attributable to equity holders of Xurpas Inc.		
Capital stock (Note 22)	**186,764,015**	186,764,015
Additional paid-in capital (Note 22)	**3,343,119,550**	3,343,119,550
Retained earnings (Note 22)	**435,746,945**	419,869,821
Net unrealized loss on available-for-sale financial assets (Note 8)	**(150,000)**	(150,000)
Cumulative translation adjustment	**18,645,167**	1,131,974
Retirement benefit reserve	**(2,939,890)**	(2,939,890)
Equity reserve (Notes 21 and 22)	**(1,326,839,650)**	(892,221,754)
Treasury stock (Note 22)	**(88,815,989)**	(71,510,352)
	2,565,530,148	2,984,063,364
Noncontrolling interests	**874,640,156**	830,167,876
Total Equity	**3,440,170,304**	3,814,231,240
	₱5,648,374,625	₱5,894,603,270

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, 2017 (Unaudited)	June 30, 2016 (Unaudited)	**June 30, 2017 (Unaudited)**	June 30, 2016 (Unaudited)
REVENUE				
Service income (Note 15)	**₱1,177,017,621**	₱707,806,309	**₱437,469,298**	₱362,587,976
Sale of goods	**31,738,736**	22,327,530	**22,285,084**	18,361,887
Interest income (Note 5)	**1,018,826**	1,765,370	**871,749**	1,503,380
Other income (Note 7)	**4,837,437**	4,188,797	**1,911,328**	3,215,861
	1,214,612,620	736,088,006	**462,537,459**	385,669,104
COST AND EXPENSES				
Cost of services (Note 16)	**729,053,571**	352,658,268	**231,696,434**	185,543,895
Cost of goods sold	**26,328,669**	16,447,417	**18,320,736**	13,522,473
General and administrative expenses (Note 17)	**242,034,394**	168,975,863	**135,937,421**	88,899,567
Equity in net loss of associates (Note 9)	**22,231,842**	6,545,390	**9,197,397**	4,776,304
	1,019,648,476	544,626,938	**395,151,988**	292,742,239
INCOME BEFORE INCOME TAX	**194,964,144**	191,461,068	**67,385,471**	92,926,865
PROVISION FOR INCOME TAX (Note 20)	**40,238,562**	58,955,359	**15,901,380**	28,914,010
NET INCOME	**154,725,582**	132,505,709	**51,484,091**	64,012,855
OTHER COMPREHENSIVE INCOME				
Item that may be reclassified to profit or loss in subsequent periods:				
Cumulative translation adjustment	**15,984,652**	–	**8,111,833**	–
TOTAL COMPREHENSIVE INCOME	**₱170,710,234**	₱132,505,709	**₱59,595,924**	₱64,012,855

(Forward)

	For the six-month period ended		For the three-month period ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	**June 30, 2017 (Unaudited)**	June 30, 2016 (Unaudited)
Net income (loss) attributable to:				
Equity holders of Xurpas Inc.	**₱108,724,761**	₱101,907,669	**₱13,820,961**	₱48,517,023
Noncontrolling interests	**46,000,821**	30,598,040	**37,663,130**	15,495,832
	₱154,725,582	₱132,505,709	**₱51,484,091**	₱64,012,855
Total comprehensive income attributable to:				
Equity holders of Xurpas Inc.	**₱126,237,954**	₱101,907,669	**₱22,430,144**	₱48,517,023
Noncontrolling interests	**44,472,280**	30,598,040	**37,165,780**	15,495,832
	₱170,710,234	₱132,505,709	**₱59,595,924**	₱64,012,855
Earnings Per Share (Note 23)				
Basic	**₱0.06**	₱0.06	**₱0.01**	₱0.03
Diluted	**₱0.06**	₱0.06	**₱0.01**	₱0.03

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	June 30	
	2017	2016
	(Unaudited)	(Unaudited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS INC.		
Capital stock - ₱0.10 par value (Note 22)		
Authorized – 5,000,000,000 shares		
Issued and outstanding		
Balance at beginning of period	**₱186,764,015**	₱172,000,066
Issuance of common shares through cash subscription	**–**	7,770,000
Balance at end of period	**186,764,015**	179,770,066
Additional paid-in capital (Note 22)		
Balance at beginning of period	**3,343,119,550**	1,219,718,163
Issuance of common shares through cash subscription	**–**	1,190,606,997
Balance at end of period	**3,343,119,550**	2,410,325,160
Retained earnings (Note 22)		
Appropriated		
Balance at beginning of period	**235,819,709**	65,819,709
Release of appropriation for share buy-back transactions	**(81,184,011)**	–
Balance at end of period	**154,635,698**	65,819,709
Unappropriated		
Balance at beginning of period	**184,050,112**	184,978,622
Release of appropriation for share buy-back transactions	**81,184,011**	–
Net income	**108,724,761**	101,907,669
Cash dividend	**(92,847,637)**	(86,265,841)
Balance at end of period	**281,111,247**	200,620,450
	435,746,945	266,440,159
Net unrealized loss on available-for-sale financial asset (Note 8)		
Balance at beginning and end of period	**(150,000)**	(210,000)
Cumulative translation adjustment on investments in associates		
Balance at beginning of period	**1,131,974**	6,484,416
Movement during the period	**17,513,193**	–
Balance at end of period	**18,645,167**	6,484,416
Retirement benefit reserve		
Balance at beginning and end of period	**(2,939,890)**	(8,064,767)
Equity reserve (Note 22)		
Balance at beginning of period, as previously reported	**(892,221,754)**	(848,496,865)
Movement during the period	**(434,617,896)**	–
Balance at end of period	**(1,326,839,650)**	(848,496,865)
Treasury stock (Note 22)		
Balance at beginning of period	**(71,510,352)**	–
Share buy-back transactions during the period	**(17,305,637)**	–
Balance at end of period	**(88,815,989)**	–
	2,565,530,148	2,006,248,169

(Forward)

	June 30	
	2017	2016
	(Unaudited)	(Unaudited)
NONCONTROLLING INTERESTS		
Balance at beginning of period	**830,167,876**	771,522,209
Cumulative translation adjustment	**(1,528,541)**	–
Net income (loss)	**46,000,821**	30,598,040
Balance at end of period	**874,640,156**	802,120,249
	₱3,440,170,304	₱2,808,368,418

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱194,964,144**	₱191,461,068
Adjustments for:		
Depreciation and amortization (Notes 16 and 17)	**24,629,279**	21,136,025
Equity in net loss of associates (Note 9)	**22,231,842**	6,545,390
Interest expense (Note 17)	**726,692**	860,696
Provision for impairment loss (Note 17)	**5,021,342**	−
Unrealized loss from financial assets at FVPL (Note 7)	**−**	(52,795)
Interest income (Note 5)	**(1,018,826)**	(1,765,370)
Pension expense	**314,278**	−
Unrealized foreign currency exchange gain (loss)	**(2,644)**	(795,421)
Gain on disposal of assets	**−**	(625,270)
Realized gain on financial asset at FVPL (Note 7)	**−**	(1,175,618)
Operating income before changes in working capital	**246,866,107**	215,588,705
Changes in working capital		
Decrease (increase) in:		
Receivables	**25,495,073**	122,094,020
Other current assets	**(39,965,809)**	(7,271,346)
Increase (decrease) in:		
Accounts and other payables	**(25,378,744)**	(98,986,817)
Other current liabilities	**(39,332,499)**	−
Pension liabilities	**−**	(8,976,411)
Net cash generated from operations	**167,684,128**	222,448,151
Interest received	**1,018,826**	681,054
Interest paid	**−**	(860,696)
Income taxes paid	**(46,534,333)**	(81,660,561)
Net cash provided by operating activities	**122,168,621**	140,607,948
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investments in financial asset at FVPL (Note 7)	**335,915,489**	80,451,119
Additions to:		
Investments in associates (Note 9)	**−**	(468,380,136)
Available-for-sale financial assets (Note 8)	**−**	(43,146,000)
Financial assets at FVPL (Note 7)	**−**	(390,000,000)
Intangible assets (Note 11)	**(3,102,225)**	−
Property and equipment (Note 10)	**(9,616,523)**	(14,844,530)
Acquisition of subsidiary, net of cash received	**(253,368,000)**	−
Proceeds from asset disposal	**−**	2,793,605
Decrease (increase) in noncurrent assets	**4,266,054**	(4,458,823)
Net cash used in investing activities	**74,094,795**	(837,584,765)

(Forward)

	June 30	
	2017	2016
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares (Note 22)	**–**	1,243,200,000
Proceeds from loan availments	**–**	90,000,000
Transaction cost (Note 22)	**–**	(44,823,003)
Dividends paid (Note 22)	**(92,847,637)**	(86,265,841)
Share buy-back transactions (Note 22)	**(17,305,637)**	–
Payment of short-term loan payable	**(200,000)**	(90,000,000)
Net cash provided by (used in) financing activities	**(110,353,274)**	1,112,111,156
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	**15,987,296**	437,786
NET INCREASE IN CASH	**101,897,438**	415,572,125
CASH AT BEGINNING OF PERIOD	**428,517,653**	305,885,002
CASH AT END OF PERIOD (Note 5)	**₱530,415,091**	₱721,457,127

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 9, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements of the Group as at June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016, 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, 2016.

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, 2017 and December 31, 2016 and for the six-month periods ended June 30, 2017 and 2016 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, 2017 and December 31, 2016.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies for like transactions and other events in similar circumstances.

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

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

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

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

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

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

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

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

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

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

As at June 30, 2017 and December 31, 2016, the consolidated financial statements comprise the financial statement of the Parent Company and the following domestic subsidiaries:

	Percentage Ownership		
	June 30, 2017	December 31, 2016	**Principal Activities**
Xeleb Technologies Inc.	67.00%	67.00%	Enterprise services
Xeleb Inc.	67.00	67.00	Mobile consumer services
Seer Technologies, Inc.	70.00	70.00	Enterprise services
Codesignate Inc.*	52.50	52.50	Enterprise services
Storm Technologies, Inc.	56.60	56.60	Human resource management
Yondu, Inc.	51.00	51.00	Mobile consumer services and Enterprise services
Xurpas Enterprise Inc.	100.00	100.00	Enterprise services
Art of Click Pte. Ltd.	100.00	100.00	Mobile consumer 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.*

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

On the same date, Xeleb Tech 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 Tech 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 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 (see Note 22).

On August 24, 2016, the BOD and Stockholders of Xeleb Tech approved its increase in authorized capital stock from ₱5.00 million divided into 5,000,000 common shares at a par value of ₱1.00, to ₱100.00 million divided into 4,000,000,000 common shares at a par value of ₱0.025.

On the same date, Xeleb Tech's BOD authorized the registration and/or use the name "Xeleb Technologies Inc." to replace its corporate name "Fluxion, Inc." that was approved by the SEC on November 21, 2016.

On November 21, 2016, the SEC approved the increase in authorized capital stock of Xeleb Tech. On the same date, Xeleb Tech 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 to reduction of Parent Company's interest in Xeleb Tech to 67.00%.

Xurpas Enterprise Inc. (Xurpas Enterprise)
On March 23, 2016, the Parent Company incorporated Xurpas Enterprise. Xurpas Enterprise shall 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. (Xeleb)
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. (Storm)
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 22).

On August 12, 2016, Storm's BOD authorized the registration and/or use the name "Storm Technologies, Inc." to replace its corporate name "Storm Flex Systems, Inc." and was approved by the SEC on December 27, 2016.

Art of Click Pte. Ltd. (Art of Click)
On October 6, 2016, the Parent Company signed a Share Purchase Agreement with Emmanuel Michael Jean Allix ("Allix") and Wavemaker Labs Pte. Ltd. for the acquisition of 100% stake in Art of Click for an aggregate consideration of ₱1.40 billion in cash and in Parent Company's shares (see Note 22).

AOC, a Singapore-based company, is engaged in the business of mobile media agency that offers a marketing platform for advertisers.

Adoption of New and Amended Accounting Standards and Group's Interpretations
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the interim consolidated statements of financial position and interim consolidated statements of comprehensive income unless otherwise indicated:

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards and Interpretations Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective 2018

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effectivity date.

- PFRS 2, *Shared-based Payment, Classification and Measurement of Share-based Payment Transactions* (Amendments)
- PFRS 4, *Insurance Contracts, Applying* PFRS 9, *Financial Instruments, with* PFRS 4 (Amendments)
- PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of the Annual Improvements to PFRSs 2014-2016 Cycle)* (Amendments)
- PAS 40, *Investment Property, Transfers of Investment Property* (Amendments)
- Philippine Interpretation IFRIC - 22, *Foreign Currency Translations and Advance Considerations*

Effective 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.
  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

Deferred Effectivity

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

<u>Cash</u>
Cash includes cash on hand and in banks. Cash in banks are stated at the face amount and earn interest at the prevailing bank deposit rate.

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see Note 24).

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instrument

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), 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 June 30, 2017 and December 31 2016, the Group's financial instruments are of the nature of loans and receivables, financial assets at FVPL, AFS financial assets and other financial liabilities.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Accounts and other receivables are recognized initially at original invoice amounts. These are subsequently carried at cost unless when it is collectible beyond one year, in which, they are carried at amortized cost using the effective interest method.

Financial assets and financial liabilities at FVPL

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

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

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

Derivatives embedded in the host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at 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 statements of financial position at fair value, with changes in the fair value recorded in the consolidated statements of comprehensive income, included under "Other income" account.

As at June 30, 2017 and December 31, 2016, the Group holds its investment in Unit Investment Trust Fund (UITF) Security Bank (SB) Peso money market fund as held for trading and classified these as financial assets at FVPL (see Note 7).

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" accounts, except for "Advances to employees" which are subject to liquidation, in the consolidated statements of financial position.

After initial measurement, accounts and other receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" account in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as "Provision for impairment losses" under "General and administrative expenses" account. Accounts and other receivables is 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, an/d may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include convertible notes and equity investments.

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

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

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

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

The Group’s AFS financial assets pertain to convertible notes and quoted and unquoted equity securities. AFS financial assets are included in current assets if expected to be realized within 12 months from the reporting date.

Other financial liabilities
Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group’s “Accounts and other payables” (except “Taxes payable”, “Deferred output VAT” and statutory payables included as “Others”), “Liability for written put option” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets
The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of the future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, credit history, past-due status and terms.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the right to receive cash flows from the asset have expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
c. the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a ‘pass-through’ arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associate, less any impairment in values. The consolidated statement of comprehensive income reflects the share of the results of the operations of the associate company. The Group's share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the associate company are eliminated to the extent of the interest in the associate company and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.
The Group discontinues applying the equity method when their investment in associate company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associate company. When the associate company subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. When necessary, adjustments are made to bring the reporting dates and accounting policies in line with those of the Group.

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

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

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

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

	Years
Transportation equipment	3 to 5
Office equipment	2 to 4
Information Technology (IT) equipment	2 to 4
Furniture and fixtures	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.

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

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

	Years
Customer relationships	Indefinite
Leasehold rights	7
Developed software	5 to 8

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

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

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

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

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

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

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

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

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

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

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

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

Noncontrolling interests

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

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

Written put option over NCI

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

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

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

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

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

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

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

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.

The financial information in the consolidated financial statements are not restated for periods prior to the combination of the entities under common control.

Impairment of Nonfinancial Assets

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

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

Investments in associates

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

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

Intangible assets with indefinite useful life

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

Impairment of goodwill

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

Equity

Capital stock and additional paid-in capital

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

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

Treasury stock

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

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) gains or losses resulting from increase or decrease in ownership without loss of control; and
(c) difference between the consideration transferred and the net assets acquired in common control business combination.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any. The Group assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Service income

Service income consists of revenue from Value-Added Services (VAS), Business Process Outsourcing (BPO), and income earned for mobile solution and key platform maintenance and development services recognized by reference to the stage of completion of the transaction at the end of the reporting period in accordance with the service agreement.

VAS pertains to the Group's short services of mobile content application for telephone, internet, mobile and other forms of communication. BPO pertains to business outsourcing for technical support services and software developments.

Stage of completion of uncompleted contracts as the end of a reporting period are being determined based on the completion of proportion of work as indicated in the purchase orders or service agreement. Service income earned from content services is recognized when the service has been rendered through distribution of content services.

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

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

Other income
Other income is recognized as they accrue.

<u>Costs and Expenses</u>
"Cost of services" and "General and administrative expenses" are expenditures that arise in the course of the ordinary operations of the Group. The following specific recognition criteria must also be met before costs and expenses are recognized.

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

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

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

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

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

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

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

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 liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses are recognized immediately in the statements of financial position with a corresponding debit or credit through other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

Foreign Currency Transactions
The Group's consolidated financial statements are presented Philippine Peso, which is also the Parent Company and the subsidiaries' functional currency, except for Art of Click which is Singaporean dollar. The Philippine peso is the currency of the primary economic environment in which the Parent Company operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets. Financial information on business segments is presented in Note 25 of the consolidated financial statements.

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

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

Events after 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.

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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. 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 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. Identifiable intangible assets acquired through business combination

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

The following are the intangible assets acquired through business combinations:

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

e. Present ownership over underlying shares in written put option

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

f. Indefinite useful life of customer relationships

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

<u>Management's Use of Estimates</u>

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.

Estimating allowance for impairment losses

The Group estimates the level of allowance for impairment losses on accounts receivable at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include among others, the length of the relationships with the customers, customers' payment behavior, known market factors, age and status of receivables. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying values of the Group's accounts receivable amounted to ₱926.39 million and ₱956.90 million as at June 30, 2017 and December 31, 2016 respectively (see Note 6).

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 lest cost of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a 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, 2017	December 31, 2016
Goodwill (Notes 11 and 21)	**₱2,043,384,111**	₱2,043,384,111
Customer relationship (Notes 11 and 21)	**1,077,809,700**	1,077,809,700
	₱3,121,193,811	₱3,121,193,811

Fair value measurement of intangible assets resulting from business combination
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Valuation techniques are used to determine the fair value of the intangible assets. Valuation techniques include multi-period excess earnings method (MEEM), and the "premium profits" method. The table below summarizes the carrying amounts of the intangible assets and the related valuation techniques used to determine fair value at the acquisition date for business combinations in 2015.

			Carrying Values	
	Intangible Asset	**Valuation Technique**	**June 30, 2017**	December 31, 2016
Yondu	Customer relationships	MEEM	**₱1,077,809,700**	₱1,077,809,700
	Developed software	MEEM	**73,125,644**	90,912,963
	Leasehold rights	Premium profits method	**9,025,798**	11,646,290
Storm	Leasehold rights	Premium profits method	**2,730,737**	3,608,475
Seer	Leasehold rights	Premium profits method	**753,004**	978,905
			₱1,163,444,883	₱1,184,956,333

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

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

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

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

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

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

In 2016, no intangible asset is recognized as a result of business combination (see Note 21).

4. Seasonality of Interim Operations

The Group is subject to the seasonality of revenue realization due to Storm's Flexible Benefits Program and Art of Click's advertising business. 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. Likewise, Art of Click usually experience spikes in revenues towards the end of the year as demand for digital advertising tends to increase around this time.

5. Cash and Cash Equivalents

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash on hand	**₱1,509,061**	₱8,113,051
Cash in banks	**528,906,030**	420,404,602
	₱530,415,091	₱428,517,653

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

Interest income earned from cash in banks amounted to ₱1.02 million and ₱1.77 million for the six-month periods ended June 30, 2017 and 2016, respectively.

6. Accounts and Other Receivables

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Unaudited)
Trade receivables	**₱894,158,587**	₱933,663,242
Receivable from related parties (Note 19)	**9,463,000**	43,990
Advances to employees	**7,868,085**	7,952,381
Others	**16,552,784**	17,126,242
	928,042,456	958,785,855
Less: Allowance for impairment loss	**1,656,459**	1,883,443
	₱926,385,997	₱956,902,412

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, 2017 and December 31, 2016, the Group's receivables from GTI amounted to ₱463.96 million and ₱401.16 million, respectively, which comprise 52% and 42%, respectively, of the total trade receivables (Note 24).

Advances to employees mainly pertain to advances which are subject to liquidation. These also include noninterest-bearing salary loans made by the employees and are collectible in one year.

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

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

7. Financial Assets at Fair Value through Profit or Loss

The Group invested in the SB Peso Money Market Fund (the Fund). The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. As at June 30, 2017 and December 31, 2016, the fair value of the Group's total investment in the Fund is as follows:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Beginning	**₱335,915,489**	₱80,317,867
Additions	**–**	2,520,000,000
Withdrawals	**(335,915,489)**	(2,265,317,867)
Unrealized gains	**–**	915,489
	₱–	₱335,915,489

The fair value of the investment in UITF is valued at nil and ₱128.15 NAV per unit as at June 30, 2017 and December 31, 2016, respectively, and is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available such as quoted market prices or dealer quotes for similar instruments. Thus, the fair value measurement is categorized under Level 2 of fair value hierarchy (Note 24).

As at June 30, 2017 and 2016, the Group recognized realized gain from redemption of financial assets at FVPL under "Other income" amounting to ₱3.13 and ₱0.13 million, respectively.

8. Available-for-Sale Financial Assets

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of year	**₱152,973,079**	₱85,617,079
Additions during the year	**–**	67,296,000
Unrealized gain on AFS financial asset	**–**	60,000
	152,973,079	152,973,079
Less: current portion	**108,428,123**	108,428,123
	₱44,544,956	₱44,544,956

The roll forward analysis of net unrealized loss on AFS financial asset follows:

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
Balance at beginning of period	**(₱150,000)**	(₱210,000)
Unrealized gain on AFS financial asset	**–**	60,000
Balance at end of period	**(₱150,000)**	(₱150,000)

Unrealized gain on AFS financial asset is recognized under "Other comprehensive income" in the consolidated statements of comprehensive income.

Carrying amount of the investments in available-for-sale financial assets as at June 30, 2017 and December 31, 2016 are as follow:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Quoted shares		
Club Punta Fuego	**₱300,000**	₱300,000
Unquoted equity investment		
Zowdow Inc.	**44,244,956**	44,244,956
Unquoted debt investments		
MatchMe Pte. Ltd.	**52,495,000**	52,495,000
Altitude Games Pte. Ltd.	**28,856,000**	28,856,000
Einsights Pte. Ltd.	**23,475,000**	23,475,000
Pico Candy Pte. Ltd.	**3,602,123**	3,602,123
	₱152,973,079	₱152,973,079

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

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.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, 2017 and December 31, 2016, the Group holds a 4.22% 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 24).

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

On February 11, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US$500,000. The principal and interest will be due and payable twelve (12) months from Closing. Interest will accrue on an annual basis at the rate of 5% per annum.

On October 7, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US$300,000. The principal and interest will be due and payable twelve (12) months from Closing. Interest will accrue on an annual basis at the rate of 5% per annum.

On February 17, 2017, MatchMe Pte. Ltd. and the Parent Company executed an agreement to extend the maturity of the Convertible Promissory Note dated November 2, 2015 in such a way that the Principal and unpaid accrued interest will be due and payable on or before May 1, 2017.

Altitude Games Pte. Ltd.
On January 19, 2016, the Group purchased a convertible promissory note for US$400,000 issued by Altitude Games Pte. Ltd. ("Altitude Games"), an associate of the Group. The principal and interest shall be due and payable twelve (12) months from the date of the note. Interest shall accrue on an annual basis at the rate of 3%.

On September 21, 2016, the Group acquired additional convertible promissory note for US$200,000 issued by Altitude Games. The principal and interest shall be due and payable twelve (12) months from the date of the note. Interest shall accrue on an annual basis at the rate of 3.75%.

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

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. **Investments in Associates**

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cost		
Balance at beginning of year	**₱575,584,063**	₱105,803,926
Additions during the year	**–**	469,780,137
Balance at end of year	**575,584,063**	575,584,063
Equity in net loss during the year		
Balance at beginning of year	**(43,381,613)**	(9,479,226)
Share in net loss during the year	**(22,231,842)**	(33,902,387)
Balance at end of year	**(65,613,455)**	(43,381,613)
Cumulative translation adjustment		
Balance at beginning of year	**₱2,327,912**	₱6,484,416
Movement during the year	**–**	(4,156,504)
Balance at end of year	**2,327,912**	2,327,912
	₱512,298,520	₱534,530,362

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, 2017 (Unaudited)	December 31, 2016 (Audited)	**June 30, 2017 (Unaudited)**	December 31, 2016 (Audited)
Micro Benefits Limited	**23.53%**	23.53%	**₱416,802,959**	₱441,948,554
MatchMe Pte. Ltd.	**28.59**	28.59	**57,181,686**	56,193,284
Altitude Games Pte. Ltd	**21.78**	21.78	**27,963,392**	27,841,006
PT Sembilan Digital Investama	**49.00**	49.00	**10,034,255**	8,201,170
Altitude Games Inc.	**21.17**	21.17	**316,228**	346,348
			₱512,298,520	₱534,530,362

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. Nolledo, a stockholder, assigned its 11.36 million ordinary shares representing 10.02% ownership in Altitude Games pursuant to the Deed of Assignment with the Parent Company. Accordingly, the Parent Company recognized a payable to a stockholder amounting to ₱15.24 million from the said assignment which was subsequently paid in 2015.

As at June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, 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.

10. **Property and Equipment**

The Group acquired property and equipment amounting to ₱9.62 million during the six-month period ended June 30, 2017. Depreciation expense amounted to ₱15.18 million and ₱11.68 million for the six-month periods ended June 30, 2017 and 2016, respectively.

The Group's fully depreciated property and equipment with aggregate cost of ₱18.93 million are still in use as at June 30, 2017 and December 31, 2016, respectively.

11. **Intangible Assets**

This account consists of:

June 30, 2017

	Goodwill	**Customer Relationship**	**Developed Software**	**Leasehold Rights**	**Total**
Cost					
Balance at beginning of period	**₱2,043,384,111**	**₱1,077,809,700**	**₱125,565,895**	**₱17,378,812**	**₱3,264,138,518**
Additions	**–**	**–**	**3,102,225**	**–**	**3,102,225**
Balance at end of period	**2,043,384,111**	**1,077,809,700**	**128,668,120**	**17,378,812**	**3,267,240,743**
Accumulated amortization					
Balance at beginning of period	**–**	**–**	**21,488,276**	**3,627,929**	**25,116,205**
Amortization	**–**	**–**	**8,163,326**	**1,241,344**	**9,404,670**
Balance at end of period	**–**	**–**	**21,488,276**	**4,869,273**	**34,520,875**
Net Book Value	**₱2,043,384,111**	**₱1,077,809,700**	**₱107,179,844**	**₱12,509,539**	**₱3,232,719,868**

December 31, 2016

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Total
Cost					
Additions during the year	₱687,808,790	₱1,077,809,700	₱111,123,483	₱17,378,812	₱1,894,120,785
Additions through business combination	1,355,575,321	–	–	–	1,355,575,321
Additions during the year	–	–	14,442,412	–	14,442,412
At end of year	2,043,384,111	1,077,809,700	125,565,895	17,378,812	3,264,138,518
Accumulated amortization					
At beginning of year	–	–	4,693,062	1,145,242	5,838,304
Amortization	–	–	16,795,214	2,482,687	19,277,901
At end of year	–	–	21,488,276	3,627,929	25,116,205
Net Book Value	₱2,043,384,111	₱1,077,809,700	₱104,077,619	₱13,750,883	₱3,239,022,313

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.

12. **Accounts and Other Payables**

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Trade payables	**₱208,367,800**	₱257,608,036
Taxes payable	**93,644,854**	31,373,312
Accrued expenses	**68,069,860**	37,789,221
Payable to related parties (Note 19)	**9,281,095**	27,812,097
Deferred output VAT	**6,422,185**	55,595,725
Others	**3,287,801**	3,547,256
	₱389,073,595	₱413,725,647

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.

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.

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

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. These are noninterest-bearing and are normally settled within one year.

13. **Loans Payable**

Group with a local bank collaterized by trade receivables equivalent to the outstanding balances of the loans as at June 30, 2017 and December 31, 2016, with interest rates of 6.00 to 6.75% per annum. These loans are secured by an assignment of assets belonging to the Group.

On various dates in 2015, the Group availed from a local bank, additional short-term notes payable amounting to ₱2.00 million. In 2015, the Group also settled ₱4.00 million of its loans. The total outstanding loans payable amounted to ₱14.00 million as at December 31, 2015. There were no settlements made in 2016 for these loan as these are covered by an auto-renewal arrangement by the bank.

In 2017 and 2016, the Group availed from a local bank additional short-term notes payable amounting to ₱2.80 million ₱3.00 million, respectively.

As at June 30, 2017 and December 31, 2016, the Group has outstanding loans payable amounting to ₱16.80 million and ₱17.00 million, respectively, ₱3.00 million of which is due within one year classified under current liabilities.

Interest expense recognized in the Group's statements of comprehensive income for the six-month period ended June 30, 2017 and for the year ended December 31, 2016 amounted to ₱0.73 million and ₱1.20 million, respectively.

There were no undrawn loan commitments and transaction costs and interest expenses capitalized as at June 30, 2017 and December 31, 2016.

14. Other Current Liabilities

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Dividends payable	**₱45,297,289**	₱116,486,508
Unearned revenues	**41,659,722**	9,803,002
Finance lease liability	**1,426,090**	1,426,090
	₱88,383,101	₱127,715,600

Dividends payable pertain to amount payable to the previous stockholders of Xeleb Tech, Seer, Yondu and Art of Click for dividends declared before the Parent Company acquired shares in the subsidiaries.

Unearned revenues mainly pertain to amounts received from clients from which the Group will obtain funds to finance the goods purchased by the clients' employees. The Group shall refund the remaining advances within 30 days from the end of the contract.

15. Service Income

Service income, amounting to ₱1,177.02 million and ₱707.81 million for the six-month periods ended June 30, 2017 and 2016, respectively, pertain to revenues earned from mobile consumer products and services and enterprise services rendered by the Group to its customers.

16. Cost of Services

Cost of services for the six-month periods ended June 30, 2017 and 2016 consists of:

	For the six-month period ended		For the three-month period ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	**June 30, 2017 (Unaudited)**	June 30, 2016 (Unaudited)
Outsourced services	**₱324,577,439**	₱19,577,416	**₱57,047,720**	₱11,731,808
Salaries, wages and employee benefits	**269,014,753**	222,473,277	**119,863,406**	118,834,581
Segment fee and network costs	**48,937,733**	53,322,788	**18,667,881**	27,370,165
Royalty fees	**39,695,266**	21,816,834	**21,295,807**	9,569,019
Web hosting	**19,404,856**	6,082,065	**6,240,757**	3,053,064
Depreciation and amortization	**9,793,002**	10,187,743	**1,735,157**	4,887,545
Rent (Note 18)	**5,856,219**	5,777,636	**2,352,309**	2,876,460
Consultancy fees	**3,973,415**	5,886,080	**2,044,503**	3,255,647
Utilities	**2,858,954**	3,825,121	**491,889**	1,692,358
Transportation and travel	**1,094,367**	915,634	**532,918**	428,861
Prizes and winnings	**939,627**	667,211	**547,434**	388,353
Commission	**743,262**	–	**700,000**	–
Seminars and trainings	**106,233**	31,440	**106,233**	23,215
Others	**2,058,445**	2,095,023	**70,420**	1,432,819
	₱729,053,571	₱352,658,268	**₱231,696,434**	₱185,543,895

17. General and Administrative Expenses

General and administrative expenses for the six-month periods ended June 30, 2017 and 2016 consists of:

	For the six-month period ended		For the three-month period ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	**June 30, 2017 (Unaudited)**	June 30, 2016 (Unaudited)
Salaries, wages and employee benefits	**₱106,483,999**	₱66,272,621	**₱69,284,561**	₱32,706,540
Professional fees	**18,852,287**	11,693,176	**9,020,803**	5,816,759
Rent (Note 18)	**16,323,926**	11,111,452	**8,493,683**	7,624,001
Depreciation and amortization	**14,836,277**	10,948,282	**10,881,285**	6,249,740
Outsourced services	**11,662,463**	9,361,499	**2,181,249**	5,276,341
Taxes and licenses	**9,720,335**	6,045,042	**3,665,519**	2,805,536
Utilities	**6,961,752**	5,572,203	**4,555,693**	2,931,166
Transportation and travel	**6,747,669**	4,838,317	**3,588,166**	3,403,510
Advertising	**6,185,946**	2,879,532	**4,212,052**	587,010
Repairs and maintenance	**6,145,873**	17,526,814	**5,319,920**	8,439,978
Entertainment, amusement and recreation	**5,216,145**	3,546,261	**3,148,165**	2,284,787
Provision for impairment loss	**5,021,342**	–	**3,097,245**	–
Dues and subscription	**4,750,858**	4,368,595	**1,573,108**	1,638,954
Marketing and promotions	**4,483,559**	6,583,302	**1,563,589**	4,724,358
Seminars and trainings	**2,930,142**	631,684	**1,686,430**	481,993
Supplies	**2,751,894**	1,740,899	**1,626,879**	1,103,354
Interest expense	**726,692**	860,696	**45,788**	648,209
Miscellaneous	**12,233,235**	4,995,488	**1,993,286**	2,177,331
	₱242,034,394	₱168,975,863	**₱135,937,421**	₱88,899,567

18. 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 ₱22.18 million and ₱16.89 million for the six-month periods ended June 30, 2017 and 2016, respectively (see Notes 17 and 18).

As at June 30, 2017 and December 31, 2016, the future minimum lease payments within one year under noncancellable operating leases amounted to ₱34.65 million and ₱2.59 million, respectively.

19. 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, 2017 and December 31, 2016 follow:

			Outstanding Balance			
			June 30, 2017		December 31, 2016	
	Terms	**Conditions**	**Receivable**	**Payable**	Receivable	Payable
Associate						
Cost of services	Noninterest-bearing	Unsecured, no impairment	**₱–**	**₱9,281,095**	₱–	₱4,568,854
Advances	One year; noninterest-bearing	Unsecured, no impairment	**9,463,000**	**–**	–	–
			9,463,000	**9,281,095**	–	4,568,854
Stockholders						
Payable to directors and officers	Noninterest-bearing	Unsecured, no impairment	–	–	–	23,243,243
Advances	One year; noninterest-bearing	Unsecured, no impairment	–	–	43,990	–
			₱9,463,000	**₱9,281,095**	₱43,990	₱27,812,097

	Amount / Volume			
	June 30, 2017 (Six Months)	June 30, 2016 (Six Months)	**June 30, 2017 (Three Months)**	June 30, 2016 (Three Months)
Associate				
Cost of services	**₱16,369,029**	₱4,137,178	**₱6,045,845**	₱2,929,592
Stockholders				
Advances	–	2,390,797	–	2,266,561
	₱16,369,029	₱6,527,975	**₱6,045,845**	₱5,196,153

Associates:

a. 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, 2017 and 2016, the Group recognized "Outsourced services" under "Cost of services" amounting to ₱4.01 million and ₱2.33 million, respectively, in relation to the aforementioned transaction. As at June 30, 2017 and December 31, 2016, payable to Altitude Games amounted to ₱1.35 million and ₱0.68 million, respectively.

b. In 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 ₱1.64 million and ₱1.81 million, respectively, during the six-month periods ended June 30, 2017 and 2016, and outstanding payables amounted to ₱0.75 million and ₱3.58 million as at June 30, 3017 and December 31, 2016, 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 six-month periods ended June 30, 2017 and 2016, the Group recognized "Outsourced services" under "Cost of services" amounting to ₱10.72 million and nil, respectively. As at June 30, 2017 and December 31, 2016, payable to MatchMe amounted to ₱7.18 million and ₱0.31 million, respectively.

d. During the year, the Parent Company paid MatchMe ₱4.47 million as an advance to services to be rendered by the former in favor of the Parent Company. This shall be recouped against future billings.

e. Advances to associates also pertain to short-term, non-interest bearing loan granted to Altitude Games to fund its operating expenditures. As at June 30, 2017, the outstanding receivable due from Altitude Games amounted to ₱4.99 million.

Stockholders:

a. Payable to directors and officers pertain to directors' fees and advances from officers which were incurred in 2016. Outstanding payable amounted to nil and ₱23.24 million as at June 30, 2017 and December 31, 2016.

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

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱6.89 million and ₱31.56 million for the three-month periods ended March 31, 2017 and 2016, respectively.

20. Income Taxes

Provision for income tax for the six-month periods ended June 30, 2017 and 2016 consists of:

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
Current	**₱58,797,327**	₱63,179,986
Deferred	**(18,632,187)**	(4,573,258)
Final	**73,422**	348,631
	₱40,238,562	₱58,955,359

21. 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. The consideration partly involves upfront and installment payment of cash and Xurpas shares in favor of the Sellers.

On June 7, 2017, the Parent Company executed a revised agreement with Allix, a seller, amending the terms of payment and reducing the consideration due to him. The payment of the adjusted Allix sale shares purchase price shall be solely in cash, in USD, and shall be in lieu of the payment to Allix of common shares of Xurpas. As of June 30, 2017, total acquisition cost was reduced to ₱1.12 billion.

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 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
Other assets	2,197,610
	333,697,938
Liabilities	
Accounts and other payables	270,986,229
Income tax payable	20,099,967
	291,086,196
Total net assets acquired	42,611,742
Acquisition cost	1,398,187,063
Goodwill	₱1,355,575,321

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 parties executed a Share Purchase Agreement, as amended, for the cash payment and issuance of Xurpas shares in favor of the Sellers as follows:

Nature	US Dollar	Philippine Peso
Cash		
Upfront payment	5,000,000	242,000,000
Installment payment	12,300,000	611,064,000
Xurpas shares		
Installment payment	1,024,348	49,490,192
Deferred purchase consideration	10,800,000	521,789,545
	29,124,348	1,424,343,737

The consideration for the acquisition partly involves cash and the upfront and installment payment of Xurpas shares payable to the Sellers amounting to ₱1.12 billion.

Cash
The cash consideration consists of (1) an upfront payment to the Sellers amounting to US$2,797,106, (2) cancellation of employee stockholder options through Parent Company's subscription to one ordinary share in the capital of Art of Click for US$2,202,894 which was used to pay the Art of Click's Employee Stock Ownership Plan ("ESOP") shareholders and (3) payments in tranches amounting to US$12.30 million of which US$532,983 is committed for the repurchase of the previously issued 53,298,242 shares to Allix.

Xurpas Shares
The Xurpas shares to be issued to the Sellers consists of (1) an Upfront Payment amounting to US$4,628,303 payable in Xurpas shares to the Sellers on the listing 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 Art of Click has to meet as a condition precedent to the entitlement of the Sellers to the Deferred Purchase Consideration. The aggregate amount of Deferred Payment Consideration for a three year deferred payment period shall in no case be greater than US$10.80 million.

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. Further, in the event that the value of common share of the Parent Company to be issued to Sellers is lower than the value of the required tranche payments, the Parent Company has agreed to compensate for the shortfall through the payment of cash or to cause the additional issuance and listing of common shares of the Parent Company to constitute full payment thereof. The Installment Payment payable in the next three years amounted to ₱397.65 million recognized under

“Contingent liability” 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%.

Call Option

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.

Storm Technologies, Inc. (“Storm”)

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

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

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

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

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

Assets	
Cash	₱110,123,616
Receivables	14,389,114
Inventories	978,648
Other current assets	5,788,668
Property and equipment	1,435,871
Intangible assets	4,096,106
Deferred tax asset	2,731,642
Other noncurrent asset	382,769
	139,926,434
Liabilities	
Accounts and other payables	20,965,139
Deferred tax liability	1,228,832
Loans payable	6,628,000
	28,821,971
Net assets	111,104,463
Non-controlling interests in Storm	54,376,599
Total net assets acquired	56,727,864
Goodwill	134,161,689
Acquisition cost	₱190,889,553

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

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

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

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

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

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
	2,056,453,089
Liabilities	
Accounts and other payables	₱582,669,211
Income tax payable	41,541,943
Pension liability	6,514,740
Deferred tax liability	355,471,170
Other long-term liabilities	3,900,000
	990,097,064
Net assets	1,066,356,025
Non-controlling interests in Yondu	706,503,943
Total net assets acquired	359,852,082
Goodwill	540,147,918
Acquisition cost	₱900,000,000

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

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

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

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

Acquisition of Noncontrolling Interests

Xeleb Technologies Inc. (Xeleb Tech)

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 35.00% interest is Xeleb Tech. The acquisition of the 35.00% interest in Xeleb 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 22).

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 22).

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.

22. Equity

The details of the number of shares as at June 30, 2017 and December 31, 2016 follow:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Authorized shares	**5,000,000,000**	5,000,000,000
Par value per share	**₱0.10**	₱0.10
Issued shares	**1,867,640,146**	1,867,640,146
Treasury shares	**10,687,400**	8,532,900
Value of shares issued	**₱186,764,015**	₱186,764,015
Value of treasury shares	**(₱88,815,989)**	(₱71,510,352)

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 ₱1.00each 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 ₱1.00per 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 ₱1.00per 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 Art of Click as payment of the upfront consideration in relation to the acquisition of 100% stakeholding in Art of Click (see Note 21). The excess of subscription price over paid-up capital amounting to ₱932.79 million was recognized as APIC.

<u>Retained Earnings</u>
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 at June 30, 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.

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.

<u>Equity Reserve</u>
During the period, a reserve amounting to ₱434.62 million was set up in relation to the amendments made in the share purchase agreement with Allix for the acquisition of AOC shares.

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
	₱56,652,330	₱12,927,441	(₱43,724,889)

In 2015, a reserve amounting to P =848.50 million was set up in relation to a recognized financial liability for the written put option over the ownership interest of GTI in Yondu. This will be subsequently reversed once the option is exercised or has expired.

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 June 30, 2017 and December 31, 2016, treasury stocks acquired totaled to 10,687,400 shares and 8,532,900 shares, respectively, which amounted to ₱88.82 million and ₱71.51 million, respectively.

In various dates of January and February 2017, the Parent Company acquired an aggregate of 2,154,500 treasury stocks for a total amount of ₱17.30 million.

The buy-back program was terminated on March 27, 2017.

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, 2017, 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, 2017 (Unaudited)	December 31, 2016 (Audited)
Capital stock	**₱186,764,015**	₱186,764,015
Additional paid-in capital	**3,343,119,550**	3,343,119,550
Retained earnings	**435,746,945**	419,869,821
	₱3,965,630,510	₱3,949,753,386

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 in 2017 and 2016.

23. Earnings Per Share

Basic earnings per share for the six-month periods ended June 30, 2017 and 2016 were computed as follows:

	For the six-month period ended		For the three-month period ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	**June 30, 2017 (Unaudited)**	June 30, 2016 (Unaudited)
Net income attributable to the equity holders of the Parent Company	**₱108,724,761**	₱101,907,669	**₱13,820,961**	₱48,517,023
Weighted average number of outstanding shares	**1,858,409,525**	1,746,469,891	**1,858,409,525**	1,746,469,891
Dilutive shares arising from contingent liability	**68,289,516**	–	**68,289,516**	–
Adjusted weighted average number of common shares for diluted earnings per share	**1,926,699,041**	1,746,469,891	**1,926,699,041**	1,746,469,891
Basic earnings per share	**₱0.06**	₱0.06	**₱0.01**	₱0.03
Diluted earnings per share	**₱0.06**	₱0.06	**₱0.01**	₱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

Future issuance of shares in relation to the consideration for the acquisition of 100.00% ownership in Art of Click has a dilutive effect on the computation of earnings per share.

24. 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, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding "Taxes payable", "Deferred output VAT", "Unearned revenue", and statutory payables included as "Others"), loans payable, liability on written put option, contingent liability and "Finance lease liability" under other current liabilities - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.

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

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

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

Fair Value Hierarchy

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

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

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

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

The following table provides the fair value hierarchy of the Group's financial assets which are measured at fair value as at June 30, 2017 and December 31, 2016:

June 30, 2017

			Fair value measurement using		
	Date of Valuation	**Total**	**Quoted prices in active markets** (Level 1)	**Significant Observable Input** (Level 2)	**Significant Unobservable inputs** (Level 3)
Available-for-sale financial assets					
Quoted equity investments	June 30, 2017	**₱300,000**	**₱300,000**	**₱–**	**₱–**
Unquoted equity investments	June 30, 2017	**44,244,956**	–	–	**44,244,956**
Unquoted debt investments	June 30, 2017	**108,428,123**	–	–	**108,428,123**
Financial liabilities at FVPL					
Liability for written put option	June 30, 2017	**864,705,965**	–	**864,705,965**	–
Contingent liability	June 30, 2017	**39,952,623**	–	**39,952,623**	–
		₱1,057,631,667	**₱300,000**	**₱904,658,588**	**₱152,673,079**

December 31, 2016

			Fair value measurement using		
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable inputs (Level 3)
Financial assets at FVPL	December 31, 2016	₱335,915,489	₱–	₱335,915,489	₱–
Available-for-sale financial assets					
Quoted equity investments	December 31, 2016	300,000	300,000	–	–
Unquoted equity investments	December 31, 2016	44,244,956	–	–	44,244,956
Unquoted debt investments	December 31, 2016	108,428,123	–	–	108,428,123
Financial liabilities at FVPL					
Liability for written put option	December 31, 2016	864,705,965	–	864,705,965	–
Contingent liability	December 31, 2016	39,952,623	–	39,952,623	–
		₱1,393,547,156	₱300,000	₱1,240,574,077	₱152,673,079

There have been no reclassifications from Level 1 to Level 2 or 3 categories for the six-month period ended June 30, 2017.

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, customer's deposit and statutory payables), loans payable, liability on written put option, contingent liability 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 2017 and 2016.

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 52% and 42% of its total trade receivables as at June 30, 2017 and December 31, 2016, respectively (see Note 6). Recent economic condition and market segment of GTI shows its continuing growth and success.

The Group's maximum exposure to credit risk is equal to the carrying values of its financial assets as at June 30, 2017 and December 31, 2016.

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

Cash in banks, financial assets at FVPL, quoted AFS financial assets and other 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 - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

Unquoted AFS financial assets are unrated.

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

The maturity profile of the Group's financial assets and financial liabilities at June 30, 2017 and December 31, 2016 are based on contractual undiscounted payments.

As at June 30, 2017 and December 31, 2016, the Group's financial assets and financial liabilities have a maturity of less than one year.

25. Segment Reporting

The industry segments where the Group operates follow:

- Mobile consumer services - includes airtime management, content development and management and marketing and advertising solutions
- 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, 2017 and 2016:

2017 (Unaudited)

	Mobile consumer services	**Enterprise Services**	**Other services**	**Intersegment Adjustments**	**Consolidated**
Revenue from services to external customers	**₱965,833,559**	**₱332,959,122**	**₱2,025,750**	**(₱123,800,810)**	**₱1,177,017,621**
Revenue from sale of goods	**–**	**–**	**31,738,736**	**–**	**31,738,736**
Equity in net loss of associates	**–**	**–**	**–**	**(22,231,842)**	**(22,231,842)**
Operating expenses	**(721,188,021)**	**(320,967,716)**	**(71,756,150)**	**116,495,253**	**(997,416,634)**
Operating profit	**244,645,538**	**11,991,406**	**(37,991,664)**	**(29,537,399)**	**189,107,881**
Dividend income	**–**	**–**	**–**	**–**	**–**
Interest income	**894,075**	**70,431**	**54,320**	**–**	**1,018,826**
Other income	**2,345,717**	**1,825,257**	**666,463**	**–**	**4,837,437**
Benefit from (provision for) income tax	**(44,880,282)**	**(8,259,655)**	**10,750,239**	**2,151,136**	**(40,238,562)**
Net income (loss)	**₱203,005,048**	**₱5,627,439**	**(₱26,520,642)**	**(₱27,386,263)**	**₱154,725,582**
Net income attributable to:					
Equity holders of Xurpas Inc.					**₱108,724,761**
Noncontrolling interests					**46,000,821**
					₱154,725,582

2016 (Unaudited)

	Mobile consumer services	Enterprise Services	Other services	Intersegment Adjustments	Consolidated
Revenue from services to external customers	₱434,680,472	₱309,739,037	₱1,919,600	(₱38,532,800)	₱707,806,309
Revenue from sale of goods	–	–	22,327,530	–	22,327,530
Equity in net loss of associates	(6,545,390)	–	–	–	(6,545,390)
Operating expenses	(261,326,321)	(268,079,259)	(39,295,890)	30,619,922	(538,081,548)
Operating profit	166,808,761	41,659,778	(15,048,760)	(7,912,878)	185,506,901
Interest income	1,915,744	73,942	–	(224,316)	1,765,370
Other income	2,853,581	828,027	507,189	–	4,188,797
Provision for (benefit from) income tax	(53,376,280)	(12,352,685)	4,362,471	2,411,135	(58,955,359)
Net income (loss)	₱118,201,806	₱30,209,062	(₱10,179,100)	(₱5,726,059)	₱132,505,709
Net income attributable to:					
Equity holders of Xurpas Inc.					₱101,907,669
Noncontrolling interests					30,598,040
					₱132,505,709

26. Events After Reporting Date

On July 18, 2017, the Parent Company's BOD approved the buy-back of 53,298,242 Xurpas shares from Allix pursuant to the agreement executed by the parties on June 7, 2017. Accordingly, ₱26.65 million was appropriated for the repurchase of the said shares.

27. Approval of Financial Statements

The unaudited interim condensed consolidated financial statements of the Group as at June 30, 2017 and December 31, 2016 and for the six-month periods ended June 30, 2017 and 2016 were approved and authorized for issue by the BOD on August 9, 2017.

AGING OF RECEIVABLES

The aging analysis of accounts receivable presented per class follows:

June 30, 2017

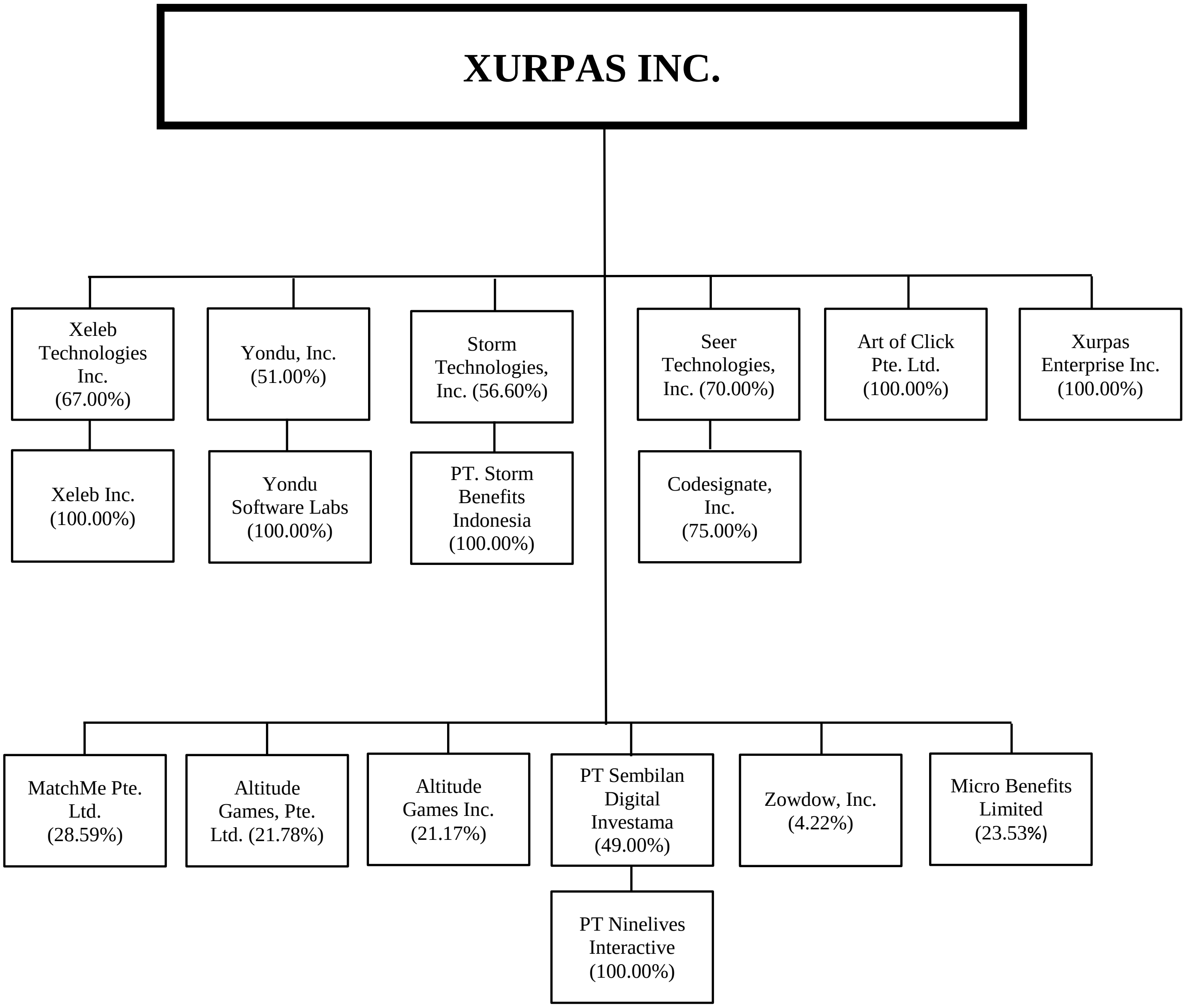
	Neither Past Due nor Impaired	Past Due but Not Impaired <30 days	30 to <90 days	>90 days	Impaired Financial Assets	Total
Trade receivable	**₱230,698,051**	**₱122,516,703**	**₱211,325,664**	**₱324,771,376**	**₱1,656,459**	**₱894,158,587**
Receivable from related parties	**9,463,000**	**–**	**–**	**–**	**–**	**9,463,000**
Advances to employees	**7,868,085**	**–**	**–**	**–**	**–**	**7,868,085**
Others	**16,552,784**	**–**	**–**	**–**	**–**	**16,552,784**
	₱264,581,920	**₱122,516,703**	**₱211,325,664**	**₱324,771,376**	**₱1,656,459**	**₱928,042,456**

December 31, 2016

	Neither Past Due nor Impaired	Past Due but Not Impaired <30 days	30 to <90 days	>90 days	Impaired Financial Assets	Total
Trade receivable	₱385,590,181	₱163,681,537	₱227,498,338	₱155,009,743	₱1,883,443	₱933,663,242
Receivable from related parties	43,990	–	–	–	–	43,990
Advances to employees	7,952,381	–	–	–	–	7,952,381
Others	17,126,242	–	–	–	–	17,126,242
	₱410,712,794	₱163,681,537	₱227,498,338	₱155,009,743	₱1,883,443	₱958,785,855

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs'	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
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 Measurement (2010 version)	✓		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities	✓		
PFRS 11	Joint Arrangements			✓
	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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
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			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Presentation of Financial Statements – Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to 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, Income Taxes, 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: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group plans and disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
PAS 28	Investment in Associate	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28, Sale or Contribution of Assets* between an Investor and its Associate or Joint Venture			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
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	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to 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			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at June 30, 2017		Adopted	Not Adopted	Not Applicable
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	₱96,717,678
Less adjustments:	
Treasury shares	–
Deferred tax assets	17,157,279
Fair value adjustments	–
Unappropriated Retained Earnings, as adjusted, beginning	79,560,399
Net Income based on the face of AFS	(9,125,542)
Less: Non-actual/unrealized income net of tax	
Amount of provision for deferred tax during the year	802,178
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	–
Unrealized actuarial gain	–
Fair value adjustment (M2M gains)	–
Fair value adjustment of Investment Property resulting to gain adjustment due to deviation from PFRS/GAAP – gain	–
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	–
Adjustment due to deviation from PFRS/GAAP - loss	–
Loss on fair value adjustment of investment property (after tax)	–
Net Income Actual/Realized	(9,927,720)
Add (less): Other adjustments	
Dividend declarations during the period	(92,847,637)
Effects of prior period adjustments	–
Reversal of appropriation for treasury shares	81,184,011
Appropriations during the year	–
	(11,663,626)
Unappropriated retained earnings, end available for dividend distribution	₱57,969,053

XURPAS INC. AND SUBSIDIARIES
FINANCIAL RATIOS

Financial Ratios	June 30, 2017	December 31, 2016
A. Current ratios		
Current ratios	92%	119%
Quick ratios	87%	115%
B. Debt-to-equity ratios	86%	70%
C. Asset-to-equity ratios	220%	198%
D. Interest rate coverage ratios	26,929%	3,379%
E. Profitability ratios		
Net income margin	9%	13%
Gross margin	38%	41%
Operating margin	18%	25%
Return on total assets	2%	6%
Return on equity	4%	14%

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

Summary

Key Financial Data In PhP Thousands	For the 6 months ended June 30					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	858,693	71%	397,014	54%	461,679	116%
Enterprise services	316,298	26%	308,872	42%	7,426	2%
Other services	33,764	3%	24,247	3%	9,517	39%
Interest income	1,019	0%	1,765	0%	(747)	-42%
Other income	4,837	0%	4,189	1%	649	15%
Total Revenues	**1,214,613**	**100%**	**736,088**	**100%**	**478,525**	**65%**
Cost of Services	729,054	60%	352,658	48%	376,396	107%
Cost of Goods Sold	26,329	2%	16,447	2%	9,882	60%
Gross Profit	**459,230**	**38%**	**366,982**	**50%**	**92,248**	**25%**
General and Administrative Expenses	242,034	20%	168,976	23%	73,058	43%
Equity in Net Loss of Associate	22,232	2%	6,545	1%	15,687	240%
Income Before Income Tax	**194,964**	**16%**	**191,461**	**26%**	**3,503**	**2%**
Provision for Income Tax	40,239	3%	58,955	8%	(18,716)	-32%
Net Income	**154,726**	**13%**	**132,506**	**18%**	**22,220**	**17%**

Total Comprehensive Income	**170,710**	**14%**	**132,506**	**18%**	**38,204**	**29%**
EBITDA	**220,320**	**18%**	**213,458**	**29%**	**6,862**	**3%**

Key Financial Data In PhP Thousands	Jun. 30, 2017 (Unaudited) Amount	Dec. 31, 2016 (Audited) Amount	Amount Change	% Increase
Total Assets	5,648,374,625	5,894,603,270	(246,228,645)	-4%
Total Liabilities	2,208,204,321	2,080,372,030	127,832,291	6%
Total Equity	3,440,170,304	3,814,231,240	(374,060,936)	-10%

The net income of the Group for the six-month period ended June 30, 2017, increased by 17% (from ₱132.51 million in first six months of 2016 to ₱154.73 million in 2017). Total comprehensive income over the same period increased by 29% from ₱132.51 million as at June 30, 2016 to ₱170.71 million as at June 30, 2017. EBITDA increased by 3% to ₱220.32 million as at June 30, 2017 from ₱213.46 million the previous year. Group revenues were still mainly driven by mobile consumer services, comprising 71% of 1H2017 revenues.

Total revenues increased by ₱478.53 million or 65% for the comparable period, from ₱736.09 million in the first half of 2016 to ₱1,214.61 million in 2017. The full effect of new revenue segments from investments and acquisitions in 2016 were realized in 2017. These were mobile consumer services revenues derived from Art of Click.

Although revenues breached the ₱1 billion mark for the 1st half of 2017, there has been a slowdown in company growth in the second quarter, primarily due to Art of Click. However, the Company is implementing a recovery plan while continuing to develop its various platforms and aggressively push its enterprise and e-commerce services.

The blended cost of services (aggregating the subsidiaries' costs) increased by 107% from ₱352.66 million for first half of 2016 to ₱729.05 million for the comparable period in 2017. Cost of goods sold attributable to other services was ₱26.33 million for first six months of 2017 compared to ₱16.45 million in 2016, an increase of 60% or ₱9.88 million. Gross profit margins on total revenues, for the six-month period ended June 30, 2017 was at 38%, a decrease from the same period last year at 50%. However, in absolute amount, gross profit increased by 25% from ₱366.98 million for the first half of 2016 to ₱459.23 million for the same period in the year 2017.

General and administrative expenses increased by 43%, from ₱168.98 million for the first half of 2016 to ₱242.03 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. 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 ₱22.23 million for the period ended June 30, 2017. Provision for taxes during the first six months of 2017 was ₱40.24 million or 32% lower than the same period in 2016 at ₱58.96 million.

Overall, the net income for the Group increased from ₱132.51 million for the first six months of 2016 to ₱154.73 million over the same period in 2017; an increase of 17%.

Consolidated total assets as of June 30, 2017 amounted to ₱5,648.37 million, a decrease of 4% from ₱5,894.60 million as of December 31, 2016. The net decrease of ₱246.23 million in total assets was mainly brought by the ₱335.92 million decrease in financial assets at FVPL. Consolidated total liabilities increase by 6% from ₱2,080.37 million as of December 31, 2016 to ₱2,208.20 million in June 30, 2017, due mainly to the increase in contingent liability. Consolidated total equity decreased by 10% over the same period, from ₱3,814.23 million to ₱3,440.17 million. This was a result of the decrease in equity reserve.

Segment Financial Performance

As of June 30, 2017 In PhP	**Mobile Consumer Services**	**Enterprise Services**	**Other Services**	**Intersegment Adjustments**	**Consolidated**
Revenue from services	965,833,559	332,959,122	2,025,750	(123,800,810)	1,177,017,621
Revenue from sale of goods	-	-	31,738,736	-	31,738,736
Equity in net loss of associates	-	-	-	(22,231,842)	(22,231,842)
Operating expenses	(721,188,021)	(320,967,716)	(71,756,150)	116,495,253	(997,416,634)
Operating profit	244,645,538	11,991,406	(37,991,664)	(29,537,399)	189,107,881
Interest and Other income	3,239,792	1,895,688	720,783	-	5,856,263
Provision for income tax	(44,880,282)	(8,259,655)	10,750,239	2,151,136	(40,238,562)
Net Income	**203,005,048**	**5,627,439**	**(26,520,642)**	**(27,386,263)**	**154,725,582**

As of June 30, 2017, mobile consumer services' revenues, operating profit and net income prior to eliminations were ₱965.83 million, ₱244.65 million and ₱203.01 million, respectively. These translated to 26% operating profit margin and 21% net income margin. Enterprise services had operating profit of ₱11.99 million (operating profit margin of 4%) and net income of ₱5.63 million (net income margin of 2%) from revenues of ₱332.96 million. The other services segment has yet to yield a positive contribution to the Group.

<u>Profitability</u>

<u>For the six-month period ended June 30, 2017 compared with the six-month period ended June 30, 2016</u>

Revenues

The consolidated revenues of the Group for the period ended June 30, 2017 amounted to ₱1,214.61 million, an increase of 65% from ₱736.09 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	• Xurpas Parent Company • Xeleb 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	• Xeleb Technologies • Seer • Yondu
Other services	Revenues derived from services related to the proprietary platform called "Flex Benefits System" and "Kudos" which allows employees to convert their employee benefits to other benefits which includes sale of goods	• Storm Technologies

Key Financial Data In PhP Thousands	For the 6 months ended June 30					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	858,693	71%	397,014	54%	461,679	116%
Enterprise services	316,298	26%	308,872	42%	7,426	2%
Other services	33,764	3%	24,247	3%	9,517	39%
Interest income	1,019	0%	1,765	0%	(747)	-42%
Other income	4,837	0%	4,189	1%	649	15%
Total Revenues	**1,214,613**	**100%**	**736,088**	**100%**	**478,525**	**65%**

Revenues from the mobile consumer services segment for the six-month period ended June 30, 2017 amounted to ₱858.69 million, an increase of 116% from the previous year's same period level of ₱397.01 million. This segment accounts for 71% of the total revenues. On the other hand, revenues from enterprise services (which accounts for 26% of total revenues) increased by 2% in June 30, 2017, to ₱316.30 million from ₱308.87 million in June 30, 2016. Other services booked revenues of ₱33.76 million in the first half 2017, higher by 39% from the previous level at ₱24.25 million over the same period last year.

Interest income as of June 30, 2017 amounted to ₱1.02 million or 42% lower vis-à-vis the ₱1.77 million from the same period in 2016. Interest income was derived from the interest generated by the Group from its cash deposits in banks and cash equivalents. Other income which includes placements on financial assets at FVPL as of June 30, 2017 amounted to ₱4.84 million or 15% higher vis-à-vis the ₱4.19 million from the same period in 2016.

Expenses

In PhP Thousands	For the 6 months ended June 30					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	729,054	73%	352,658	66%	376,396	107%
Cost of Goods Sold	26,329	3%	16,447	3%	9,882	60%
General and Administrative Expenses	242,034	24%	168,976	31%	73,058	43%
Total Expenses	997,417	100%	538,081	100%	459,336	85%

As of the first half of 2016, Xurpas had as subsidiaries: Xeleb Technologies (formerly Fluxion), Storm Flex, Xeleb, Seer, and Yondu. In contrast, the first half of 2017 now also includes Art of Click. The Group's consolidated expenses during the period ended June 30, 2017 amounted to ₱997.42 million, an 85% increase from the same period of the previous year at ₱538.08 million. For the first half of 2017, cost of services accounted for the bulk of expenses, totaling ₱729.05 million or 73% of the Group's consolidated expenses. For the same period in 2016, cost of services amounted to ₱352.66 million or 66% of overall expenses of ₱538.08 million.

Cost of Services

In PhP Thousands	For the 6 months ended June 30					
	2017		2016		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Outsourced services	324,577	45%	19,577	6%	305,000	1558%
Salaries, wages and employee benefits	269,015	37%	222,473	63%	46,542	21%
Segment fee and network costs	48,938	7%	53,323	15%	(4,385)	-8%
Others	86,524	12%	57,285	16%	29,239	51%
Total Expenses	**729,054**	**100%**	**352,658**	**100%**	**376,396**	**107%**

Cost of services totaling ₱729.05 million as of June 30, 2017, was mainly driven by expenses relating to (1) Outsourced services, (2) Salaries, wages, and employee benefits, and (3) Segment fee and network costs, which accounted for 45%, 37%, and 7%, respectively. These costs were directly borne from rendering mobile consumer services, enterprise services, and other services to the Group's clients for the first half of 2017. Of the total cost of services for the period, 43% is attributable to newest subsidiary, Art of Click. In comparison, as at June 30, 2016 cost of services (₱352.66 million) was broken down into 6% outsourced services, 63% salaries, wages, and employee benefits, and 15% segment fee and network costs.

Cost of Goods Sold

For the period ended June 30, 2017, cost of goods sold took up 3% of the Group's consolidated expenses, amounting to ₱26.33 million. This figure was an increase of 60% from its level at ₱16.45 million in June 30, 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 Thousands	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	106,484	44%	66,273	39%	40,211	61%
Professional fees	18,852	8%	11,693	7%	7,159	61%
Rent	16,324	7%	11,111	7%	5,213	47%
Depreciation and amortization	14,836	6%	10,948	6%	3,888	36%
Others	85,538	35%	68,951	41%	16,587	24%
Total Expenses	**242,034**	**100%**	**168,976**	**100%**	**73,058**	**43%**

General and administrative expenses relating to the Group's operations, for first three months of 2017 amounted to ₱242.03 million, higher by 43% compared to previous year's same period level of ₱168.98 million. Salaries, wages, and employee benefits was ₱106.48 million or 44% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱66.27 million for the same period in 2016. The next biggest cost component in June 30, 2017 was professional fees amounting to ₱18.85 million or 8% of total GAEX. 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 16% of the total.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the period ended June 30, 2017, amounted to ₱22.23 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 the first half of 2017, the Group is now seeing profits from the associates companies - Altitude Games, PT Sembilan Digital Investama (9Lives), and MatchMe. Micro Benefits is the only associate posting a net loss for the first half of 2017 as its main focus in the first quarter was product and user experience upgrade.

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

In PhP Thousands	For the 6 months ended June 30			
	2017	2016	Amount Change	% Increase
Income before tax	**194,964**	**191,461**	**3,503**	**2%**
Depreciation and amortization	24,629	21,136	3,493	17%
Interest expense	727	861	(134)	-16%
EBITDA	**220,320**	**213,458**	**6,862**	**3%**

The Group's EBITDA increased by 3% in June 30, 2017 to ₱220.32 million from ₱213.46 million the same period of the previous year. Depreciation and amortization of property and office equipment and intangible assets amounted to ₱24.63 million as at June 30, 2017 from ₱21.14 million as at June 30, 2016. Interest expense decreased by 16% from ₱0.86 million as of June 30, 2016 to ₱0.73 million for the same period in 2017.

Income before Income Tax

The Group's net income before taxes for period ended June 30, 2017 was 16% of total revenues or a figure of ₱194.96 million. The net income before taxes for the Group grew by 2% or ₱3.50 million from the same period ended June 30, 2016, which posted a figure of ₱191.46 million.

Provision for Income Tax

Provision for income tax during the six-month period ended June 30, 2017 amounted to ₱40.24 million, compared to the same period in 2016, where provision for income tax was ₱58.96 million; a 32% decrease.

Net Income

The Group posted a consolidated net income of ₱154.73 million for the period ended June 30, 2017, an increase of 17% from the previous year's same period at ₱132.51 million. Despite the Group's continuing organizational build-up, acquisition, investment-related expenses during this period versus that on June 30, 2016, the revenues generated a net income margin of 13% for the first half of 2017.

Comprehensive Income

As of June 30, 2017, the Group's comprehensive income amounted to ₱170.71 million, an increase of 29% compared to ₱132.51 million as at June 30, 2016.

Financial Position

As of June 30, 2017 compared to December 31, 2016

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱530.42 million for the six-month period ended June 30, 2017, a net increase of 24% or ₱101.90 million from consolidated cash and cash equivalents 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 June 30, 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 of June 30, 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 ₱926.39 million and ₱956.90 million as at June 30, 2017 and December 31, 2016, respectively, representing a decrease of 3% or ₱30.52 million. In June 30, 2017, trade receivables were valued at ₱894.16 million, whereby Yondu and Art of Click account for ₱438.10 million (49% of the total) and ₱296.73 million (33% of the total), respectively.

Available for Sale Financial Assets

As of June 30, 2017, the Group's available for sale financial assets amounted to ₱108.43 million. As of June 30, 2017, the Group's convertible bonds invested in Einsights Pte Ltd., Pico Candy Pte. Ltd, MatchMe, and Altitude Games were at ₱23.48 million, ₱3.60 million, ₱52.50 million and ₱28.86 million, respectively.

Other Current Assets

The Group's consolidated other current assets totaled ₱92.59 million, an increase of ₱39.97 million or 76% from its previous level on December 31, 2016 at ₱52.63 million. Prepaid expenses and Input VAT comprised majority of other current assets.

Available for Sale Financial Assets-net of current portion

As of June 30, 2017, the Group's available for sale financial assets amounted to ₱44.54 million, which remained unchanged from its previous level on December 31, 2016. These are the investments in Quick.ly, Inc.- ₱44.24 million; and Club Punta Fuego at ₱0.30 million.

Investment in Associates

As of June 30, 2017, the Group's consolidated Investment in Associates amounted to ₱512.30 million, a 4% decrease from its figure of ₱534.53 million during December 31, 2016. The breakdown of the carrying amounts of these investments are: Altitude Games (₱28.28 million), MatchMe (₱57.18 million), SDI (₱10.03 million), and Micro Benefits Limited (₱416.80 million).

Property and Equipment

The Group's consolidated Property and Equipment was ₱74.96 million in June 30, 2017 vis-à-vis ₱80.53 million in December 31, 2016, or a decrease of 7%. This was the net result of adding ₱9.62 million worth of said assets and the depreciation expense amounting to ₱15.18 million for the six-month period ended June 30, 2017. Property and Equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures.

Intangible Assets

Intangible assets of ₱3,232.72 million as at June 30, 2017 were recognized in relation to the Group's acquisitions and investments. Movements in this account pertains to additions and amortization amounting to ₱3.10 million and ₱9.40 million, respectively, resulting to a net decrease amounting to ₱6.30 million or 0.21% of the December 31, 2016 figure at ₱3,239.02 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, 2017, goodwill is at ₱2,043.38 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, 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 of June 30, 2017, developed software net book value is at ₱107.18 million. Amortization of Developed software for the six-month period ended June 30, 2017 amounted to ₱8.16 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, 2017, leasehold rights net book value is at ₱12.51 million. Amortization of Leasehold rights for the six-month period ended June 30, 2017 amounted to ₱1.24 million.

Pension Asset

The Group's recorded pension asset as of June 30, 2017 and December 31, 2016 was at ₱2.39 million.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱72.19 million as at June 30, 2017, higher by 30% vis-à-vis its December 31, 2016 level at ₱55.44 million.

Other Noncurrent Assets

Other Noncurrent Assets amounted to ₱51.45 million as of June 30, 2017. This figure is 8% lower than the value posted as of December 31, 2016 at ₱55.76 million. These are primarily rental and other deposits amounting to ₱24.43 million and ₱26.58 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱389.07 million as of June 30, 2017 was a 6% decrease from its December 31, 2016 figure of ₱413.73 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱208.37 million (₱118.34 million from Art of Click), taxes payable at ₱93.64 million (₱62.04 million accounted for by Yondu), accrued expenses at ₱68.07 million (₱63.82 million accounted for by Yondu), and payable to related parties at ₱9.28 million.

Loans Payable

The Group's loans payable is attributable to Seer's local bank loans amounting to ₱3.00 million As of June 30, 2017 and December 31, 2016. These are interest-bearing, short-term, and collateralized by Seer's trade receivables.

Income Tax Payable

The Group's consolidated income tax payable as of June 30, 2017 amounted to ₱77.04 million, an increase of 20% 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 June 30, 2017 and December 31, 2015.

Contingent Liability

The Group recorded ₱374.33 million in contingent liability as at June 30, 2017 and ₱112.56 million as at December 31, 2016, an increase of ₱261.78 million or 233%.

Other Current Liabilities

The Group's other current liabilities amounted to ₱88.38 million in June 30, 2017 compared to ₱127.72 million in 2016, a decrease of 31%. The decrease of ₱39.33 million was mostly from the decrease in Yondu's dividends payable which were declared before the Parent Company acquired shares in the subsidiaries.

Loans Payable – non-current portion

The Group recorded ₱13.80 million in non-current loans in June 30, 2017 and ₱14.00 million in December 31, 2016. This is attributable to the loans of Seer Technologies Inc. which are interest-bearing, long-term (more than 360-days), and collateralized against Seer Technologies Inc.'s trade receivables.

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 ₱1.16 million in June 30, 2017 and December 31, 2016.

Contingent Liability – net of current portion

The Group recorded ₱23.31 million and ₱103.84 million in contingent liability (net of current portion) as of June 30, 2017 and December 31, 2017, respectively.

Deferred Tax Liability

As of June 30, 2017, the deferred tax liability (net) was at ₱344.17 million, a decrease of 1% or ₱2.15 million from ₱346.32 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 ₱29.22 million in June 30, 2017 compared to ₱28.91 million in December 31, 2016 or an increase of 1%.

Equity

Total Equity

The Group's total equity as of June 30, 2017 was at ₱3,440.17 million, a 10% decrease from its December 31, 2016 level at ₱3,814.23 million. The net decrease in total equity was a result of decrease in equity reserve from (₱892.22) million as of December 31, 2016 to (₱1,326.84) million as of June 30, 2017. Retained earnings increased by ₱15.88 million or 4% from ₱419.87 million as at December 31, 2016 to ₱435.75 million in June 30, 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 minimal bank debt through Seer Technologies Inc. which is short term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

In PhP	For the 6 months ended June 30	
	2017	2016
	Amount	Amount
Net cash provided by (used in) Operating Activities	122,168,621	140,607,948
Net cash provided by (used in) Investing Activities	74,094,795	(837,584,765)
Net cash provided by (used in) Financing Activities	(110,353,274)	1,112,111,156
Effect of foreign currency exchange changes in cash	15,987,296	437,786
Net increase (decrease) in cash	101,897,438	415,572,125
Cash at beginning of period	428,517,653	305,885,002
Cash at end of period	**530,415,091**	**721,457,127**

Cash Flows Provided by Operating Activities

For the first six months of 2017, operating income of ₱246.87 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱167.68 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 ₱122.17 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows provided by investing activities for subsidiaries and associates for the first half of 2017 was ₱74.09 million compared to ₱837.58 million used in the same period of 2016. The cash provided by investing activities was mainly from the redemption of financial assets at FVPL.

Cash Flows Used in Financing Activities

The Group's consolidated net cash flow used in financing activities for the period ended June 30, 2017 was ₱110.35 million; compared to ₱1,112.11 million provided as of June 30, 2016. The cash flow used in financing activities were mainly from dividend payments.

Capital Expenditure

The Group's capital expenditures for the year ended June 30, 2017 and the year ended December 31, 2016 amounted to ₱9.62 million and ₱50.88 million, respectively. Note that in 2016, additions through business combination were ₱50.30 million.

CAPITAL EXPENDITURE

Key Financial Data In PhP Millions	June 30, 2017 Additions	December 31, 2016 Additions	
	(Regular)	(Business Combination)	(Regular)
Office Equipment	1.38	2.34	0.05
IT Equipment	4.70	15.06	0.47
Furniture and Fixutres	1.65	7.12	0.07
Leasehold Improvements	1.89	23.98	-
Leased Asset	-	1.81	-
Transportation Equipment	-	-	-
Total	9.62	50.30	0.58

Commitments and Contingent Liabilities

The Group recorded contingent liabilities at ₱374.33 million (current portion) and ₱23.31 million (non-current portion) as at June 30, 2017 and ₱112.56 million (current portion) and ₱103.84 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:

	For the six-month period ended June 30		For the years ended December 31	
In Percentage	**2017**	**2016**	**2016**	2015
Liquidity Ratios				
Current Ratio	**92%**	**142%**	119%	83%
Quick Ratio	**87%**	**138%**	115%	80%
Asset-to-Equity Ratio	**220%**	**161%**	198%	428%
Profitability Ratios				
Net Income Margin	**9%**	**18%**	13%	25%
Gross Margin	**38%**	**50%**	41%	57%
Operating Margin	**18%**	**26%**	25%	39%
Return on Total Assets	**2%**	**3%**	6%	9%
Return on Equity	**4%**	**5%**	14%	19%

Current Ratios

Current Ratio and Quick Ratios in the six-month period at June 30, 2017 were 92% and 87%, respectively, a decrease from their respective 119% and 115% figures during the full year of 2016. The increase in both ratios was primarily from the significant increase in current liabilities of the Group for that period.

Asset-to-Equity Ratio

The increase in the asset-to-equity ratio from 198% in December 31, 2016 to 220% in June 30, 2017 resulted from the decrease in equity, particularly equity reserve.

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 (38%), Net Income Margin (9%), Operating Margin (18%), Return on Total Assets (2%) and Return on Equity (4%) 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	Current assets / Current liabilities
2.	Quick ratio	Current assets – Other current assets / Current liabilities
Asset-to-equity Ratio		Total assets / Total equity attributable to Parent Company
Profitability Ratios		
1.	Net income ratio	Net income attributable to Parent Company / Service income
2.	Gross margin	Service income - Cost of services / Service income
3.	Operating margin	Earnings before interest, tax, depreciation and amortization / Service income
4.	Return on total assets	Net income attributable to Parent Company / Average total assets
5.	Return on total equity	Net income attributable to Parent Company / Average total equity attributable to the Parent Company

Other Disclosures:

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

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

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

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

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

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

vii. Seasonality. The effects of seasonality or cyclicality on the operations of the Group's business are confined to its mobile consumer and other services segment.