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

SEC Registration Number

A	2	0	0	1	1	7	7	0	8	

C O M P A N Y   N A M E

XURPAS INC. AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	SEC	N/A

C O M P A N Y   I N F O R M A T I O N

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
26	2nd Monday of May	December 31

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
Alexander D. Corpuz	mar@xurpas.com	889-6467	N/A

CONTACT PERSON's ADDRESS

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

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

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

"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS"

The management of **XURPAS INC. AND SUBSIDIARIES** (the "Group") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

NICO JOSE S. NOLLEDO
Chairman of the Board

FERNANDO JUDE F. GARCIA
Chief Technology Office/Treasurer

ALEXANDER D. CORPUZ
President/Chief Finance Officer

Signed this 30th of April 2019

SUBSCRIBED AND SWORN to before me this APR 3 0 2019 at PASIG CITY affiants exhibiting to me their respective Passports:

Name	Passport No.	Date of Issuance	Place of Issuance
NICO JOSE S. NOLLEDO	P3513313A	June 28, 2017	DFA Manila
FERNANDO JUDE F. GARCIA	EC1973146	August 26, 2014	DFA NCR Northeast
ALEXANDER D. CORPUZ	P5670777A	January 18, 2018	DFA NCR East

Doc. No. 299;
Page No. 61;
Book No. 1;
Series of 2019.

Clarizel King
CLARIZEL L. KING
PTR No. 5232387 / 01-8-2019 / Pasig City
IBP LIFETIME No. 1042166; 06/09/2016/PPLM
Roll No. 66581
15th Floor Strata 2000 Building
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
Appointment No. 219 (2018-2019) Pasig City
Expiring on 31 December 2019

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred a net loss of ₱811.64 million and net operating cash outflow of ₱186.02 million for the year ended December 31, 2018 and, as of that date, the Group's current liabilities exceeded its current assets by ₱348.02 million. As stated in Note 1, these events or conditions, along with other matters as set forth in Notes 1 and 27, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adoption of PFRS 15, Revenue from Contracts with Customers

The Group mainly provides mobile consumer products and services, mobile enterprise services and knowledge process outsourcing services to its customers. Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under modified retrospective approach. The adoption of PFRS 15 resulted in changes in the Group's revenue recognition policies, primarily on its mobile enterprise services. The Group recorded transition adjustments that decreased retained earnings as of January 1, 2018 by ₱4.06 million.

The adoption of PFRS 15 is significant to our audit because this involves significant management judgment and estimation in the application of output method as the measure of progress in determining revenue from platform development and customization under mobile enterprise services segment. In measuring the progress of its performance obligation over time, the Group uses the output method which measures progress based on the completion of proportion of work done and requires technical determination by the Group's specialists.

The disclosures related to the adoption of PFRS 15 are included in Notes 2 and 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process of implementing the new revenue recognition standard. We reviewed the revenue streams identification and scoping and contract analysis.

We obtained an understanding of the Group's processes for determining the completion of proportion of work under the output method and performed tests of the relevant controls. We obtained the progress report certificate prepared by the Group's specialists. We assessed the competence and objectivity of the Group's specialists by reference to their qualifications, experience and reporting responsibilities. For selected projects, we performed inquiries and obtained the supporting details of progress report certificate showing the completion of proportion of work of the major phases of the platform development and customization.

We tested the computed transition adjustments and evaluated the disclosures made in the consolidated financial statements on the adoption of PFRS 15.

Accounting for cryptocurrency transactions

The Group entered into various agreements during the year related to cryptocurrency transactions. The Group received funds denominated in both fiat and crypto currencies, and recognized certain obligations which include, among others, possible settlement of the funding in cash or through its own equity securities, building a platform, and issuance of own token in the future. The accounting for cryptocurrency transactions was significant to our audit because of (a) the significance of the resulting liabilities to the consolidated financial statements, (b) the use of blockchain technology to support the existence and completeness of cryptocurrency transactions, (c) involvement of an emerging area of accounting for cryptocurrency transactions, and (d) involvement of significant management judgment and estimation in determining the recognition and valuation of intangible assets and certain liabilities.

The Group's disclosures about cryptocurrency transactions are included in Notes 2, 11 and 30 to the consolidated financial statements.

Audit Response

We involved our internal specialists in understanding and evaluating blockchains that support the amounts recorded by the Group. We obtained the Group's listing of cryptocurrency transactions and selected a sample of transactions. For each transaction selected, we agreed the transaction details such as quantity received/sold, public address, date/time to the public blockchain and traced cash received to bank statements. We also inspected record of cryptocurrency transactions and balances on the public blockchain ledger by using multiple third-party block explorers. In addition, we read significant agreements and performed confirmation procedures for selected significant balances. We also recalculated realized gains/losses from the conversion of cryptocurrencies to fiat currency. We obtained management's judgment and analysis in determining whether a constructive obligation exist based on the terms of the agreements and the general expectations of the counterparties. We evaluated the Group's accounting policies for cryptocurrency transactions, including the related disclosures.

Realizability of goodwill, intangible asset with indefinite useful life and investments in associates

The Group has goodwill and intangible asset with indefinite useful life arising from past acquisitions and business combinations. The Group also has various investments in associates. Under PFRSs, the Group is required to annually test the amount of goodwill and other intangible assets with indefinite useful life for impairment, while an investment in associate is tested for impairment when an indication that the investment is impaired exists. These impairment tests are significant to our audit because the balance of goodwill, intangible asset with indefinite useful life and investment in associates as of December 31, 2018 is material to the consolidated financial statements. In addition, management's assessment process is complex and judgmental and is based on assumptions, specifically discount rates, growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) margins, working capital and capital expenditures.

The Group's disclosures about goodwill and intangible asset with indefinite useful life are included in Notes 3 and 11 while the disclosures about investments in associates are included in Note 9 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used in the impairment testing analyses. These assumptions include discount rates, growth rates, EBITDA margins, working capital and capital expenditures. We compared the key assumptions used, such as growth rates, EBITDA margins, working capital and capital expenditures against the historical performance of the subsidiaries and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill, intangible asset with indefinite useful life and investments in associates.

Provisions and Contingencies

The Group is involved in assessments for national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosures about provisions and contingencies are included in Notes 3 and 30 to the consolidated financial statements.

Audit Response

We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the tax assessment, and obtained correspondences with the relevant tax authorities and opinions of the external legal/tax counsels. We evaluated the tax position of the management by considering the tax laws, rulings and jurisprudence.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) for the year ended December 31, 2018, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dolmar C. Montañez.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332588, January 3, 2019, Makati City

April 30, 2019

XURPAS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash (Notes 4 and 27)	**₱177,396,187**	₱215,254,510
Accounts and other receivables (Notes 5, 20 and 27)	**530,636,685**	845,666,454
Contract assets (Notes 2 and 6)	**9,748,084**	–
Other current assets (Note 8)	**57,901,437**	57,943,929
Total Current Assets	**775,682,393**	1,118,864,893
Noncurrent Assets		
Financial assets at fair value through other comprehensive income (Notes 2, 7 and 27)	**475,000**	–
Available-for-sale financial assets (Notes 7 and 27)	**–**	159,053,079
Investments in associates (Note 9)	**455,995,470**	515,662,941
Property and equipment (Note 10)	**59,520,797**	76,145,631
Intangible assets (Notes 11 and 23)	**3,612,923,684**	3,773,880,106
Pension assets (Note 22)	**1,410,282**	310,699
Deferred tax assets - net (Notes 21 and 23)	**14,186,692**	115,527,088
Other noncurrent assets	**46,370,777**	50,735,845
Total Noncurrent Assets	**4,190,882,702**	4,691,315,389
	₱4,966,565,095	₱5,810,180,282
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 12, 20 and 27)	**₱654,522,147**	₱493,108,422
Loans payable (Notes 13 and 27)	**358,741,481**	377,419,000
Contract liabilities (Notes 2 and 6)	**44,498,497**	–
Income tax payable	**2,190,193**	10,081,586
Liability for written put option (Notes 23 and 27)	**–**	864,705,965
Payable to former shareholders of a subsidiary (Note 23)	**–**	244,426,311
Other current liabilities (Note 14)	**63,753,036**	77,172,352
Total Current Liabilities	**1,123,705,354**	2,066,913,636
Noncurrent Liabilities		
Finance lease - net of current portion (Note 19)	**25,388**	605,713
Deferred tax liabilities - net (Notes 21 and 23)	**352,729,028**	355,859,101
Pension liabilities (Note 22)	**23,521,092**	31,302,583
Total Noncurrent Liabilities	**376,275,508**	387,767,397
Total Liabilities	**1,499,980,862**	2,454,681,033
Equity		
Equity attributable to equity holders of Xurpas Inc.		
Capital stock (Note 24)	**193,492,585**	186,764,015
Additional paid-in capital (Note 24)	**3,592,076,662**	3,343,119,550
Retained earnings (deficit) (Note 24)	**(556,374,537)**	322,730,858
Net unrealized loss on financial assets at FVOCI (Note 7)	**(44,219,956)**	–
Net unrealized loss on AFS financial assets (Note 7)	**–**	(70,000)
Cumulative translation adjustment	**34,451,988**	35,366,128
Retirement benefit reserve (Note 22)	**5,475,312**	(1,189,261)
Equity reserve (Notes 23 and 24)	**(402,222,322)**	(1,250,719,186)
Treasury stock (Note 24)	**(115,464,275)**	(115,464,275)
	2,707,215,457	2,520,537,829
Noncontrolling interests (Notes 23 and 24)	**759,368,776**	834,961,420
Total Equity	**3,466,584,233**	3,355,499,249
	₱4,966,565,095	₱5,810,180,282

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
INCOME			
Service income (Note 15)	**₱1,153,342,488**	₱2,009,551,016	₱1,896,460,031
Sale of goods	**88,845,797**	94,018,662	50,678,833
	1,242,188,285	2,103,569,678	1,947,138,864
COST AND EXPENSES			
Cost of services (Note 16)	**1,062,874,019**	1,373,414,504	1,101,895,599
Cost of goods sold	**69,727,817**	81,005,679	41,818,202
	1,132,601,836	1,454,420,183	1,143,713,801
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	**701,044,377**	572,616,955	354,727,296
EQUITY IN NET LOSSES OF ASSOCIATES (Note 9)	**52,988,467**	36,721,355	33,902,387
OTHER (INCOME) CHARGES - NET (Note 18)	**22,687,905**	(82,228,258)	35,690,480
	776,720,749	527,110,052	424,320,163
INCOME (LOSS) BEFORE INCOME TAX	**(667,134,300)**	122,039,443	379,104,900
PROVISION FOR INCOME TAX (Note 21)	**144,506,949**	19,467,099	114,268,767
NET INCOME (LOSS)	**(811,641,249)**	102,572,344	264,836,133
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to profit or loss in subsequent periods:			
Unrealized gain on AFS financial assets (Note 7)	–	80,000	60,000
Cumulative translation adjustment	**7,701,974**	15,472,390	17,679
Share in OCI of an associate from cumulative translation adjustment (Note 9)	**(8,656,022)**	2,528,551	11,168,879
Item that may not be reclassified to profit or loss in subsequent periods:			
Unrealized gain on financial assets at FVOCI (Note 7)	**95,000**	–	–
Remeasurement gain on defined benefit plan, net of tax (Note 22)	**9,125,561**	3,067,528	6,236,333
	8,266,513	21,148,469	17,482,891
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱803,374,736)**	₱123,720,813	₱282,319,024
Net income (loss) attributable to:			
Equity holders of Xurpas Inc.	**(₱765,794,458)**	₱35,765,776	₱215,304,020
Noncontrolling interests	**(45,846,791)**	66,806,568	49,532,113
	(₱811,641,249)	₱102,572,344	₱264,836,133
Total comprehensive income (loss) attributable to:			
Equity holders of Xurpas Inc.	**(₱759,949,025)**	₱56,505,176	₱230,461,838
Noncontrolling interests	**(43,425,711)**	67,215,637	51,857,186
	(₱803,374,736)	₱123,720,813	₱282,319,024
Earnings (loss) per share (Note 26)			
Basic	**(₱0.41)**	₱0.02	₱0.12
Diluted	**(₱0.41)**	₱0.02	₱0.12

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year Ended December 31, 2018												
	Equity attributable to equity holders of Xurpas Inc.												
	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings Appropriated (Note 24)	Retained Earnings Unappropriated (Notes 2 and 24)	Net Unrealized Loss on Financial Assets at FVOCI (Notes 2 and 7)	Net Unrealized Loss on AFS Financial Assets (Notes 2 and 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury shares (Note 24)	Total	Non-Controlling Interest	Total Equity
Balances at beginning of year, as previously reported	₱186,764,015	₱3,343,119,550	₱115,464,275	₱207,266,583	₱–	(₱70,000)	₱35,366,128	(₱1,189,261)	(₱ 1,250,719,186)	(₱115,464,275)	₱2,520,537,829	₱834,961,420	₱3,355,499,249
Adjustments as a result of PFRS 9 adoption	–	–	–	(113,359,317)	(44,314,956)	70,000	–	–	–	–	(157,604,273)	(127,826)	(157,732,099)
Adjustments as a result of PFRS 15 adoption	–	–	–	(3,144,915)	–	–	–	–	–	–	(3,144,915)	(911,415)	(4,056,330)
Balances at beginning of year, as restated	186,764,015	3,343,119,550	115,464,275	90,762,351	(44,314,956)	–	35,366,128	(1,189,261)	(1,250,719,186)	(115,464,275)	2,359,788,641	833,922,179	3,193,710,820
Issuance of common shares through cash subscription	6,728,570	248,957,112	–	–	–	–	–	–	–	–	255,685,682	–	255,685,682
Cash dividend declaration	–	–	–	–	–	–	–	–	–	–	–	(39,908,698)	(39,908,698)
Increase in noncontrolling interest - net (Note 2)	–	–	–	3,193,295	–	–	–	–	–	–	3,193,295	8,781,006	11,974,301
Expiration of written put option	–	–	–	–	–	–	–	–	848,496,864	–	848,496,864	–	848,496,864
Net loss	–	–	–	(765,794,458)	–	–	–	–	–	–	(765,794,458)	(45,846,791)	(811,641,249)
Other comprehensive income (loss) net of tax effect	–	–	–	–	95,000		(914,140)	6,664,573	–	–	5,845,433	2,421,080	8,266,513
Total comprehensive income (loss)	–	–	–	(765,794,458)	95,000		(914,140)	6,664,573	–	–	(759,949,025)	(43,425,711)	(803,374,736)
Balances at end of year	₱193,492,585	₱3,592,076,662	₱115,464,275	(₱671,838,812)	(₱44,219,956)	₱–	₱34,451,988	₱5,475,312	(₱402,222,322)	(₱115,464,275)	₱2,704,022,162	₱759,368,776	₱3,466,584,233

	Year Ended December 31, 2017											
	Equity attributable to equity holders of Xurpas Inc.											
	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Net Unrealized Loss on Available-for-sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury shares (Note 24)	Total	Non-Controlling Interest	Total Equity
Balances at beginning of year	₱186,764,015	₱3,343,119,550	₱235,819,709	₱143,993,010	(₱150,000)	₱16,457,357	(₱2,939,890)	(₱892,221,754)	(₱71,510,352)	₱2,959,331,645	₱830,167,876	₱3,789,499,521
Appropriation for share buy-back transactions	–	–	26,649,121	(26,649,121)	–	–	–	–	–	–	–	–
Reversal of appropriation for share buy-back transactions	–	–	(81,184,846)	81,184,846	–	–	–	–	–	–	–	–
Cash dividend declaration	–	–	–	(92,847,637)	–	–	–	–	–	(92,847,637)	(59,896,761)	(152,744,398)
Reversal of appropriation for dividend declaration	–	–	(65,819,709)	65,819,709	–	–	–	–	–	–	–	–
Payments to a former shareholder of a subsidiary	–	–	–	–	–	–	–	(358,497,432)	–	(358,497,432)	–	(358,497,432)
Acquisition by a subsidiary of its own shares from noncontrolling interest shareholders	–	–	–	–	–	–	–	–	–	–	(2,525,332)	(2,525,332)
Share buy-back transactions	–	–	–	–	–	–	–	–	(43,953,923)	(43,953,923)	–	(43,953,923)
Net income	–	–	–	35,765,776	–	–	–	–	–	35,765,776	66,806,568	102,572,344
Other comprehensive income - net of tax effect	–	–	–	–	80,000	18,908,771	1,750,629	–	–	20,739,400	409,069	21,148,469
Total comprehensive income	–	–	–	35,765,776	80,000	18,908,771	1,750,629	–	–	56,505,176	67,215,637	123,720,813
Balances at end of year	₱186,764,015	₱3,343,119,550	₱115,464,275	₱207,266,583	(₱70,000)	₱35,366,128	(₱1,189,261)	(₱1,250,719,186)	(₱115,464,275)	₱2,520,537,829	₱834,961,420	₱3,355,499,249

	Year Ended December 31, 2016											
	Equity attributable to equity holders of Xurpas Inc.											
	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Net Unrealized Loss on Available-for-sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury shares (Note 24)	Total	Non-Controlling Interest	Total Equity
Balances at beginning of year	₱172,000,066	₱1,219,718,163	₱65,819,709	₱184,978,622	(₱210,000)	₱6,484,416	(₱8,064,767)	(₱848,496,865)	₱–	₱792,229,344	₱771,522,209	₱1,563,751,553
Issuance of new shares through cash subscription	7,770,000	1,190,606,997	–	–	–	–	–	–	–	1,198,376,997	–	1,198,376,997
Appropriation for share buy-back transactions	–	–	170,000,000	(170,000,000)	–	–	–	–	–	–	–	–
Cash dividend declaration	–	–	–	(86,289,632)	–	–	–	–	–	(86,289,632)	(4,900,000)	(91,189,632)
Acquisition of a subsidiary	6,993,949	932,794,390	–	–	–	–	–	–	–	939,788,339	–	939,788,339
Acquisition of NCI	–	–	–	–	–	–	–	(43,724,889)	–	(43,724,889)	(12,927,441)	(56,652,330)
Issuance of a subsidiary's shares to noncontrolling interest shareholders	–	–	–	–	–	–	–	–	–	–	24,615,922	24,615,922
Share buy-back transactions	–	–	–	–	–	–	–	–	(71,510,352)	(71,510,352)	–	(71,510,352)
Net income	–	–	–	215,304,020	–	–	–	–	–	215,304,020	49,532,113	264,836,133
Other comprehensive income - net of tax effect	–	–	–	–	60,000	9,972,941	5,124,877	–	–	15,157,818	2,325,073	17,482,891
Total comprehensive income	–	–	–	215,304,020	60,000	9,972,941	5,124,877	–	–	230,461,838	51,857,186	282,319,024
Balances at end of year, as restated	₱186,764,015	₱3,343,119,550	₱235,819,709	₱143,993,010	(₱150,000)	₱16,457,357	(₱2,939,890)	(₱892,221,754)	(₱71,510,352)	₱2,959,331,645	₱830,167,876	₱3,789,499,521

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	(₱667,134,300)	₱122,039,443	₱379,104,900
Adjustments for:			
Provision for impairment loss (Note 11)	144,855,367	–	–
Depreciation and amortization (Notes 10, 11, 16 and 17)	69,188,578	66,975,820	48,631,028
Equity in net losses of associates (Note 9)	52,988,467	36,721,355	33,902,387
Interest expense (Notes 13, 18 and 20)	31,109,017	5,904,716	13,018,342
Loss from sale of cryptocurrencies (Notes 11 and 18)	4,985,487	–	–
Unrealized foreign currency exchange loss (gain)	4,555,232	(8,677,654)	17,717,894
Unrealized loss on revaluation of cryptocurrencies (Notes 11 and 18)	2,551,474		
Unrealized gain from financial assets at FVPL	–	–	(915,489)
Realized gain from redemption of financial assets at FVPL	–	(2,216,289)	(4,836,415)
Gain on curtailment (Note 22)	–	(2,924,924)	(5,767,588)
Other income (charges) subsequent to a business combination (Notes 18 and 23)	–	(90,912,178)	44,737,874
Interest income (Note 4)	(444,430)	(1,588,435)	(3,025,253)
Loss (gain) on retirement and disposal of property and equipment (Notes 10 and 18)	(1,041,683)	316,001	(619,450)
Realized foreign exchange gain on sale of cryptocurrencies	(2,469,611)	–	–
Pension expense, net of contributions (Note 22)	(8,881,074)	11,778,555	323,136
Gain from expiration of liability for written put option (Notes 18 and 23)	(16,209,100)	–	–
Operating income (loss) before changes in working capital	(385,946,576)	137,416,410	522,271,366
Changes in working capital:			
Decrease (increase) in:			
Accounts and other receivables and contract assets - net	304,183,225	111,235,958	(157,779,241)
Other current assets	42,492	(5,315,085)	(6,132,763)
Increase (decrease) in:			
Accounts and other payables	(27,647,167)	76,645,851	(14,087,922)
Contract liabilities	44,498,497	–	–
Other current liabilities	(40,039,853)	67,736,955	(168,178,916)
Net cash generated from (used in) operations	(104,909,382)	387,720,089	176,092,524
Interest received	444,430	1,588,435	3,025,253
Interest paid	(27,363,844)	(4,767,843)	(12,985,688)
Income taxes paid, including creditable withholding taxes	(54,188,050)	(136,019,397)	(148,241,920)
Net cash provided by (used in) operating activities	(186,016,846)	248,521,284	17,890,169
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of cryptocurrencies (Note 11)	158,524,137	(10,571,807)	(14,442,412)
Collection from financial assets at FVOCI (Note 7)	6,000,000	–	–
Decrease (increase) in other noncurrent assets	4,365,067	5,021,105	(3,623,269)
Proceeds from disposal of property and equipment (Note 10)	3,934,123	338,131,778	2,881,419
Proceeds from redemption of investments in financial assets at FVPL	–	–	2,270,154,282
Acquisition of a subsidiary, net of cash acquired (Note 23)		–	(36,419,930)
Additions to:	–		
Financial assets at FVPL	–	–	(2,520,000,000)
Available-for-sale financial assets (Note 7)	–	(6,000,000)	(67,296,000)
Investments in associates (Note 9)	(1,977,018)	–	(469,780,137)
Property and equipment (Note 10)	(17,593,227)	(26,383,728)	(48,505,655)
Payments to a former shareholder of a subsidiary (Note 23)	(255,685,683)	(470,087,747)	–
Net cash used in investing activities	(102,432,601)	(169,890,399)	(887,031,702)

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans payable (Note 13)	**₱317,741,455**	₱407,419,000	₱3,000,000
Issuance of shares (Note 24)	**255,685,683**	–	1,243,200,000
Increase in noncontrolling interest	**11,974,301**	–	24,615,922
Payment of finance lease liability (Note 19)	**1,029,517**	(1,863,531)	(1,640,872)
Purchase of treasury shares (Note 24)	**–**	(43,953,923)	(71,510,352)
Payments to a former shareholder of a subsidiary (Note 23)	**–**	(358,497,432)	–
Transaction cost (Note 24)	**–**	–	(44,823,003)
Acquisition of noncontrolling interest (Note 24)	**–**	–	(56,652,330)
Dividends paid (Note 24)	**(13,819,758)**	(231,078,267)	(86,779,632)
Payment of loans payable (Note 13)	**(336,418,974)**	(46,998,370)	–
Net cash provided by (used in) financing activities	**236,192,224**	(274,972,523)	1,009,409,733
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	**14,398,900**	(16,921,505)	(17,635,549)
NET INCREASE (DECREASE) IN CASH	**(37,858,323)**	(213,263,143)	122,632,651
CASH AT BEGINNING OF YEAR	**215,254,510**	428,517,653	305,885,002
CASH AT END OF YEAR (Note 4)	**₱177,396,187**	₱215,254,510	₱428,517,653

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

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

The Parent Company's registered office address and principal place of business is at 7th Floor, Cambridge Centre, 108 Tordesillas St. Salcedo Village, Makati City.

On December 2, 2014, the Parent Company's shares of stock were listed in the Philippine Stock Exchange (PSE).

The Group incurred a net loss of ₱811.64 million and net operating cash outflow of ₱186.02 million for the year ended December 31, 2018 and, as of that date, the Group's current liabilities exceeded its current assets by ₱348.02 million. The Group's current liabilities include loans payable to banks amounting to ₱321.00 million which have a maturity of 2 to 5 months from the reporting period. The Group's continuing financial difficulties indicate that a material uncertainty exists on the Group's ability to continue as a going concern and therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Management's plans on future actions to address such uncertainty include the Group's continuous venture into new revenue potentials and cost cutting measures. The Group also engaged a third-party financial advisor to provide strategic services to the Group, which include negotiations with the banks for the extension of the maturity of the Group's existing loans and sourcing potential strategic investors for the Group. The Group also obtained advances from its stockholders for funding enterprise projects and for general corporate purposes, of which ₱120.00 million has been received as of April 30, 2019. Management does not have plans to liquidate and continues to believe that the Group is in a unique position being one of the few technology companies that can offer digital transformation to potential strategic investors and develop programs for consumer business.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 30, 2019.

2. Summary of Significant Accounting Policies

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

Statement of Compliance
The accompanying consolidated financial statements of the Group as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018 have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as at December 31, 2018 and 2017.

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other voter holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any noncontrolling interest and the cumulative translation differences recorded in equity.

- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

As of December 31, 2018, 2017 and 2016, the consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries:

	Percentage Ownership			
	2018	2017	2016	**Principal Activities**
Xeleb Technologies Inc. (Xeleb Technologies)	**67.00%**	67.00%	67.00%	Enterprise services and mobile consumer services
Xeleb Inc. (Xeleb)	**67.00**	67.00	67.00	Mobile consumer services
Seer Technologies, Inc. (Seer)	**70.00**	70.00	70.00	Enterprise services
Codesignate Inc. (Codesignate)*	**52.50**	52.50	52.50	Enterprise services
Storm Technologies, Inc. (Storm)	**53.96**	56.60	56.60	Human resource management
Pt. Storm Benefits Indonesia (Storm Indonesia)	**53.96**	56.60	56.60	Human resource management
Yondu Inc. (Yondu)	**51.00**	51.00	51.00	Enterprise services and mobile consumer services
Rocket Search Inc. (formerly Yondu Software Labs Inc.) (RSI)	**51.00**	51.00	–	Enterprise services
Xurpas Enterprise Inc. (Xurpas Enterprise)	**100.00**	100.00	100.00	Enterprise services
Art of Click Pte. Ltd. (AOC)	**100.00**	100.00	100.00	Mobile consumer services
ODX Pte. Ltd. (ODX)	**100.00**	–	–	Enterprise services

**Codesignate is a 75.00%-owned subsidiary of Seer. The Group's effective ownership over Codesignate is 52.50%. The Group has determined that it has control over the entity and consolidates the entity on this basis.*

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

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

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

Xeleb Technologies and Xeleb are entities under common control of the Parent Company before and after the restructuring. As a result, the acquisition was accounted for using the pooling of interests method in 2016. This transaction has no effect on the carrying amounts of the Group's assets and liabilities, but has resulted in the consolidation of Xeleb's assets and liabilities into Xeleb Technologies (see Note 23).

On November 21, 2016, the SEC approved the increase in authorized capital stock of Xeleb Technologies. On the same date, Xeleb Technologies issued shares in relation to Subscription

Agreements by the Parent Company, Selajo Inc., Conrev Inc., Joseliemm Holdings Inc. and Rainy Day Future Entertainment, Inc. for a total subscription of 1,000,000,000 common shares. This resulted in the reduction of the Parent Company's interest in Xeleb Technologies to 67%.

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for amended PFRS and improvements to PFRS which were adopted beginning January 1, 2018. Adoption of these new standards and amendments did not have any significant impact on the consolidated financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

  The effect of adopting PFRS 9 as at January 1, 2018 was as follows:

	As previously reported December 31, 2017	Reference	Adjustments	As restated January 1, 2018
AFS financial assets	₱153,053,079	(a)	(₱153,053,079)	₱–
Financial assets at FVOCI	–	(a)	380,000	380,000
Allowance for impairment losses	113,794,109	(b)	5,059,020	118,853,129
Retained earnings	322,730,858	(a), (b)	(113,487,143)	209,243,715
Net unrealized loss on AFS financial assets	(70,000)	(a)	70,000	–
Net unrealized loss on financial assets at FVOCI	–	(a)	(44,314,956)	(44,314,956)

  The nature of these adjustments are described below:

  a) *Classification and measurement*
  Under PFRS 9, debt instruments are subsequently measured at FVPL, FVOCI or amortized cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

  The assessment of the Group's business model was made at the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was based on the facts and circumstances at the initial recognition of the assets.

  The following are the changes in the classification of the Group's financial assets:

  - Cash, accounts and other receivables (except for advances to employees which are subject to liquidation), refundable deposits under other current assets, and cash bond under other noncurrent assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.

  - Quoted and unquoted equity investments previously classified as AFS financial assets are now classified and measured as financial assets at FVOCI. The Group elected to classify irrevocably its equity investments under this category as it intends to hold these investments for the foreseeable future. As a result of the reclassification, the Group remeasured these financial assets resulting in an increase in "Net unrealized loss on financial assets at FVOCI" of ₱44.31 million.

  - Unquoted debt investments previously classified as AFS financial assets are now classified and measured as financial assets at FVPL. The Group elected to classify these financial assets under this category since cash flows are not solely payments of principal and interest. As a result of the reclassification, the Group remeasured these financial assets resulting in a decrease in “Retained earnings” of ₱108.43 million.

The Group has not designated any financial liabilities at FVPL as of January 1, 2018. There are no changes in classification and measurement for the Group’s financial liabilities.

In summary, upon adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018:

		PFRS 9 Measurement Categories		
PAS 39 Categories	Balances	Fair value through profit or loss	Amortized cost	FVOCI
Loans and receivables				
Cash	₱215,254,510	₱–	₱215,254,510	₱–
Accounts and other receivables				
Trade receivables	933,361,381		933,361,381	–
Receivable from related parties	7,490,000	–	7,490,000	–
Others	13,449,238		13,449,238	–
AFS financial assets	159,053,079	108,428,123	–	50,624,956
Other current assets				
Refundable deposits	8,149,786	–	8,149,786	–
Other noncurrent assets				
Cash bond	65,485	–	65,485	–

b) *Impairment*

The adoption of PFRS 9 has fundamentally changed the Group’s accounting for impairment losses for financial assets by replacing PAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECL for all debt instruments not held at FVPL and contract assets.

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

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

The adoption of PFRS 9 ECL resulted in an increase in “Allowance for impairment loss” and decrease in “Retained earnings” as of January 1, 2018 amounting to ₱5.06 million as transition adjustment.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

  The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18 and related Interpretations.

  The effect of adopting PFRS 15 as at January 1, 2018 was as follows:

	As previously reported December 31, 2017	Reference	Adjustments	As restated January 1, 2018
Trade receivables	₱933,361,381	b	(₱3,590,442)	₱929,770,939
Contract assets	–	b	1,212,926	1,212,926
Unearned revenues	37,830,783	a	(37,830,783)	–
Contract liabilities	–	a, b, c	39,509,597	39,509,597
Retained earnings	322,730,858	b, c	(4,056,330)	318,674,528

  The nature of the adjustments are described below:

  a) *Advances from customers for HR services*
     Before the adoption of PFRS 15, unearned revenue was recognized for the amounts received from clients from which the Group will use to finance goods to be purchased by the client's employees.

     Under PFRS 15, this was reclassified as contract liabilities. As a result of the adoption, the Group recognized "Contract liabilities" amounting to ₱37.83 million from "Unearned revenues".

  b) *Upfront fees and warranty fees for key platform maintenance and development services*
     As part of the contract price, the Group charges its customers with upfront fees and warranty fees in connection to its enterprise services. Before the adoption of PFRS 15, revenue from upfront fees is recognized outright, usually at the commencement of the contract, while revenue from warranty fees is recognized only upon expiration of the warranty period in accordance with the service agreement.

Under PFRS 15, collection of upfront fees generally does not result in the transfer of a promised service to the customer and only represent an advance payment for future services, thus, revenue from upfront fees should be recognized over time based on the completion of proportion of work done under the output method. Meanwhile, warranties deemed as assurance-type do not constitute a performance obligation separate from the main enterprise services being rendered and thus, should also be recognized over time based on the completion of proportion of work done under the output method. As a result of the adoption, the Group recognized "Contract assets" for the warranty fees amounting to ₱1.21 million which resulted in an increase in "Retained earnings" for the same amount. Further, the Group recognized "Contract liabilities" for the upfront fees amounting to ₱0.72 million, which resulted in a decrease in "Retained earnings" for the same amount. The Group also adjusted its "Trade receivables" for the services not yet rendered amounting to ₱3.59 million which resulted in a decrease in "Retained earnings" for the same amount.

c) *Fees for implementation of and subscription to "Flex benefits system"*
For Human Resource (HR) consultancy services, the Group charges its customers with implementation fee and regular subscription fees for the use of its "flex benefits system". Before the adoption of PFRS 15, revenue from implementation fee is recognized outright, usually at the commencement of the contract, while revenue from subscription fee is recognized over a period of time.

Under PFRS 15, similar to upfront fees, collection of implementation fees generally does not result in the transfer of a promised service to the customer and only represent an advance payment for future services. Further, the implementation of the "flex benefits system" and the subscription by the clients to the platform merely forms part of a single performance obligation satisfied over a period of time. Hence, revenue from both implementation and subscription fees should be allocated over the subscription period. As a result of the adoption, the Group recognized "Contract liabilities" amounting to ₱0.96 million and a decrease in "Retained earnings" for the same amount.

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted:

Consolidated statement of comprehensive income

	For the year ended December 31, 2018		
	PFRS 15	Previous PFRS	Increase (decrease)
Service income	₱1,153,342,488	₱1,150,406,848	₱2,935,640
Provision for (benefit from) income tax	144,506,949	144,485,839	(21,110)
Net income	(₱811,641,249)	(₱814,597,999)	₱2,956,750

Consolidated statement of financial position

	As of December 31, 2018		
	PFRS 15	Previous PFRS	Increase (decrease)
ASSETS			
Current Assets			
Accounts and other receivables	₱530,636,685	₱544,378,898	(₱13,742,213)
Contract assets	9,748,084	–	9,748,084
	540,384,769	544,378,898	(3,994,129)

(Forward)

	As of December 31, 2018		
	PFRS 15	Previous PFRS	Increase (decrease)
Noncurrent Asset			
Deferred tax assets - net	₱ 14,186,692	₱24,162,451	(₱9,975,759)
	₱554,571,461	₱568,541,349	(₱13,969,888)
LIABILITIES AND EQUITY			
Current Liabilities			
Contract liabilities	₱44,498,497	₱–	₱44,498,497
Income tax payable	2,190,193	12,187,062	(9,996,869)
Other current liabilities	63,753,036	111,124,972	(47,371,936)
	110,441,726	123,312,034	(12,870,308)
Equity			
Deficit	(451,139,709)	(450,040,129)	(1,099,580)
	(₱340,697,983)	(₱326,728,095)	(₱13,969,888)

The adoption of PFRS 15 did not have a material impact on the Group's consolidated statement of cash flows.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle*)*

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1,2019

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through OCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

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

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

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

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

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

The Group is currently assessing the impact of adopting PFRS 16.

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

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

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

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

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

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

  The interpretation specifically addresses the following:

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

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

- *Annual Improvements to PFRS* 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

Current and Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / noncurrent classification. An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

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

The Group classifies all other liabilities as noncurrent.

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

Fair Value Measurement

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see Note 27).

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

Financial Instruments - initial recognition and subsequent measurement effective January 1, 2018

Date of recognition

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

a. Financial assets

Initial recognition of financial instrument

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

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

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

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost
The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets at FVOCI (debt instruments)
The Group measures debt instruments at FVOCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 60 days past due.

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

b. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at FVPL

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

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

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

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

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

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.
Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to short-term debts.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as accounts payable and accrued expenses where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument the amount separately determined as the fair value of the liability component on the date of issue.

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

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

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

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

<u>Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018</u>

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

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

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), AFS investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As at December 31, 2017, the Group's financial instruments are of the nature of loans and receivables, AFS financial assets, financial liabilities at FVPL and other financial liabilities.

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

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

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

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

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

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

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

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

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to "Cash" and "Accounts and other receivables" (except for "Advances to employees" which are subject to liquidation), "Refundable deposits" under other current assets, and "Cash bond" under other noncurrent assets in the consolidated statement of financial position.

After initial measurement, accounts and other receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" account in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss as "Provision for impairment losses" under "General and administrative expenses" account. Accounts and other receivables are included in current assets if maturity is within 12 months from the reporting date.

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

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in changes in equity is recognized as "Other income" in profit or loss. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis.

Interest earned on holding AFS financial assets is reported as interest income using the EIR. Dividends earned on holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. The losses arising from impairment of such financial assets are recognized as “Provision for impairment losses” in profit or loss.

The Group’s AFS financial assets pertain to convertible notes and quoted and unquoted equity securities (see Note 7).

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

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

This accounting policy applies primarily to the Group’s “Accounts and other payables” (except “Deferred output VAT”, “Taxes payable” and provision relating to PSA and statutory payables included as “Others”), “Loans payable”, “Payable to former shareholders of a subsidiary” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Cryptocurrencies which are not held in the ordinary course of business are recognized as intangible assets as these are identifiable non-monetary asset without physical substance.

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

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

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

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

The estimated useful lives of intangible assets follow:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Combinations of Entities under Common Control
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:
- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity under the “Equity reserve” account.

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition
Prior to adoption of PFRS 15, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any.

Upon adoption of PFRS 15, revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

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

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

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

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

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

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

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

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

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

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

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

Other Income
Other income is recognized as it accrues.

Cost and Expenses
"Cost of services", "Cost of goods sold", and "General and administrative expenses" are expenditures recognized in the consolidated statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measure reliably. The following specific recognition criteria must also be met before costs and expenses are recognized:
Cost of services
Cost that includes all expenses associated with the specific sale of services. Cost of services include salaries, wages and employee benefits, utilities and communication, supplies and other expenses related to services. Such costs are recognized when the related sales have been recognized.

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

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

Leases

Group as lessee

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

Finance lease

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

Income Tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

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

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

<u>Value-Added Tax (VAT)</u>
Revenue, expenses and assets are recognized net of the amount of sales tax except:

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

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

<u>Pensions and other long-term employee benefits</u>
The net pension liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

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

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

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

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

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

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

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

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

Foreign Currency Transactions

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

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

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

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

Earnings per Share (EPS)

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

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets. Financial information on business segments is presented in Note 28 to the consolidated financial statements.

Provisions
Provisions are recognized when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

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

Events after the Reporting Period
Post year-end events up to date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material. Information on events after the reporting period is presented in Note 31 to the consolidated financial statements.

3. Significant Accounting Judgments and Estimates and Assumptions

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

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

Judgments

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

a. *Determination of control over investment in subsidiaries*
The Group determined that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:
   - The contractual arrangement with the other vote holders of the investee
   - Rights arising from other contractual agreements
   - The Group's voting rights and potential voting rights

b. *Existence of significant influence over associates*
The Group determined that it exercises significant influence over its associates (see Note 9) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

c. *Capitalization of development costs*
The Group determined that intangible assets arising from development qualify for recognition by determining that all of the following are present:
   i. The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
   ii. Intention to complete and its ability and intention to use or sell the asset;
   iii. How the asset will generate future economic benefits;
   iv. The availability of resources to complete the asset; and
   v. The ability to measure reliably the expenditure during development.

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

   The following are the intangible assets acquired through business combinations:

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

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

f. *Determination of constructive obligation arising from cryptocurrency transactions*
The Group determined that a constructive obligation exists based on the terms of the agreements and the general expectations of the counterparties.

Management's Use of Estimates
The key assumptions concerning future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) margins, working capital and capital expenditures used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group.

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

The Group recognized impairment loss on goodwill amounting to ₱144.86 million in 2018 based on an assessment of recoverability of goodwill using the DCF model (see Note 11).

The carrying values of goodwill and customer relationship follow:

	2018	2017
Goodwill (Notes 11 and 23)	**₱2,399,762,153**	₱2,544,617,520
Customer relationship (Notes 11 and 23)	**1,077,809,700**	1,077,809,700
	₱3,477,571,853	₱3,622,427,220

Investment in associate is tested for impairment when circumstances indicate that the carrying value may be impaired.

There was no impairment loss recognized in 2018 and 2017 for the Group's investments in associates. The carrying values of investments in associates amounted to ₱456.00 million and ₱515.66 million as of December 31, 2018 and 2017, respectively (see Note 9).

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

The Group recognized service income subject to percentage of completion amounting to ₱125.44 million and ₱107.31 million in 2018 and 2017, respectively.

c. *Provisions and contingencies*
The Group is currently involved in assessments for national taxes. The estimate of the probable costs for the resolution of these assessments has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these assessments will have a material effect on the Group's consolidated financial position and results of operations (see Notes 12 and 30).

d. *Provision for expected credit losses of trade receivables and contract assets*
The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss pattern.

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

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

As of December 31, 2018 and 2017, allowance for impairment losses on accounts and other receivables amounted to ₱265.02 million and ₱113.79 million, respectively (see Notes 5 and 27).

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

The Group recognized gross deferred tax assets amounting to ₱18.46 million and ₱117.91 million as at December 31, 2018 and 2017, respectively (see Note 21).

The Group did not recognize deferred tax assets on deductible temporary differences and NOLCO amounting to ₱719.06 million and ₱48.31 million as at December 31, 2018 and 2017, respectively (see Note 21).

4. **Cash**

This account consists of:

	2018	2017
Cash on hand	**₱217,029**	₱385,595
Cash in banks	**177,179,158**	214,868,915
	₱177,396,187	₱215,254,510

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

Interest income earned from cash in banks amounted to ₱0.44 million, ₱1.59 million and ₱3.03 million in 2018, 2017 and 2016, respectively (see Note 18).

5. Accounts and Other Receivables

This account consists of:

	2018	2017
Trade receivables	**₱771,395,524**	₱933,361,381
Advances to employees	**4,764,040**	5,159,944
Receivable from related parties (Note 20)	**5,808,461**	7,490,000
Others	**13,693,032**	13,449,238
	795,661,057	959,460,563
Less: Allowance for impairment losses	**265,024,372**	113,794,109
	₱530,636,685	₱845,666,454

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, GTI, and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of December 31, 2018, and 2017, the Group's receivables from GTI amounted to ₱279.13 million and ₱540.96 million, respectively, which comprise 36% and 58%, respectively, of the total gross trade receivables (see Note 27).

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

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

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

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

	2018	2017
Balance at beginning, as previously reported	**₱113,794,109**	₱1,883,443
Adjustment as a result of PFRS 9 adoption (Note 2)	**5,059,020**	–
Balance at beginning, as restated	**118,853,129**	1,883,443
Provisions (Note 17)	**166,083,098**	106,539,273
Write-off	**(16,053,400)**	(3,296,697)
Recovery	**454,785**	–
Translation adjustments	**(4,313,240)**	8,668,090
	₱265,024,372	₱113,794,109

6. Contract Balances

Contract assets and liabilities

This account consists of:

	2018
Contract assets (Note 2)	₱9,748,084
Contract liabilities (Note 2)	44,498,497

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

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

The amount of revenue recognized from amounts included in contract liabilities at the beginning of the year amounted to ₱28.20 million.

7. Financial Assets at Fair Value through Other Comprehensive Income and Available-for-sale Financial Assets

The 2017 balance is presented under AFS. Upon adoption of PFRS 9, the quoted and unquoted equity investments were reclassified as financial assets at FVOCI while the unquoted debt investments were reclassified as financial assets at FVPL in the consolidated statements of financial position.

This account consists of:

	2018	2017
Balance at beginning of year, as previously reported	**₱159,053,079**	₱152,973,079
Adjustment as a result of PFRS 9 adoption (Note 2)	**(152,673,079)**	–
Balance at beginning of year, as restated	**6,380,000**	152,973,079
Additions during the year	**–**	6,000,000
Collections during the year	**(6,000,000)**	
Unrealized gain on financial assets at FVOCI	**95,000**	80,000
	₱475,000	₱159,053,079

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

	2018	2017
Balance at beginning of year, as previously reported	**(₱70,000)**	(₱150,000)
Adjustment as result of PFRS 9 adoption (Note 2)	**(44,244,956)**	–
Balance at beginning of year, as restated	**(44,314,956)**	(150,000)
Unrealized gain on financial assets at FVOCI	**95,000**	80,000
Balance at end of year	**(₱44,219,956)**	(₱70,000)

Unrealized gain on financial assets at FVOCI is recognized under "Other comprehensive income" in the consolidated statements of comprehensive income.

Carrying amount of the investments in financial assets at FVPL and financial assets at FVOCI and AFS financial assets as of December 31, 2018 and 2017 are as follow:

	2018	2017
Quoted shares		
Club Punta Fuego	**₱475,000**	₱380,000
Unquoted equity investment		
Zowdow Inc.	**44,244,956**	44,244,956
Less: Unrealized loss on financial assets at FVOCI	**(44,244,956)**	–
	–	44,244,956

(Forward)

	2018	2017
Unquoted debt investments		
MatchMe Pte. Ltd.	**₱–**	₱52,495,000
Altitude Games Pte. Ltd.	–	28,856,000
Einsights Pte. Ltd.	–	23,475,000
Social Light Inc.	–	6,000,000
Pico Candy Pte. Ltd.	–	3,602,123
	–	114,428,123
	₱475,000	₱159,053,079

The quoted shares are categorized under the Level 2 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 3 (see Note 27).

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

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

Upon adoption of PFRS 9, the Group recognized unrealized loss amounting to ₱44.24 million as of January 1, 2018.

Unquoted debt investments
<u>MatchMe Pte. Ltd.</u>
On November 2, 2015, the Group acquired a convertible promissory note for US$300,000 (₱14.06 million) issued by MatchMe Pte. Ltd. ("MatchMe"), an associate of the Group based in Singapore (see Note 9). On February 11, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US$500,000 (₱23.89 million). On October 7, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US$300,000 (₱14.55 million). Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to ₱52.50 million which resulted in a decrease in retained earnings as of January 1, 2018.

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

Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to ₱28.86 million which resulted in a decrease in retained earnings as of January 1, 2018.

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

Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to ₱23.48 million which resulted in a decrease in retained earnings as of January 1, 2018.

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

On August 15, 2018, the Group collected ₱6.00 million from Social Light as settlement of the convertible promissory note.

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

Upon adoption of PFRS 9, the Group recognized an impairment loss amounting to ₱3.60 million which resulted in a decrease in retained earnings as of January 1, 2018.

8. Other Current Assets

This account consists of:

	2018	2017
Creditable withholding tax	**₱18,176,998**	₱10,110,652
Input VAT	**13,740,143**	14,671,997
Refundable deposits	**11,437,282**	8,149,786
Prepaid expenses	**10,219,745**	17,868,195
Deferred input VAT	**3,494,984**	6,895,163
Inventories	**832,285**	248,136
	₱57,901,437	₱57,943,929

Creditable withholding taxes pertain to prepaid taxes recognized at the amount withheld at source upon payment, and can be carried forward and claimed as tax credit against income tax due. Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services.

Refundable deposits pertain to security deposit made for performance bond and rent which will be received within one year.

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

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

Inventories include purchases of goods to be sold. These are carried at cost. Cost of goods sold recognized amounted to ₱69.73 million, ₱81.01 million and ₱41.82 million in 2018, 2017 and 2016, respectively.

9. Investments in Associates

This account consists of:

	2018	2017
Cost		
Balance at beginning of year	**₱575,584,063**	₱575,584,063
Additions during the year	**1,977,018**	–
Balance at end of year	**577,561,081**	575,584,063
Equity in net loss during the year		
Balance at beginning of year	**(80,102,968)**	(43,381,613)
Share in net losses during the year	**(52,988,467)**	(36,721,355)
Balance at end of year	**(133,091,435)**	(80,102,968)
Cumulative translation adjustment		
Balance at beginning of year	**₱20,181,846**	₱17,653,295
Movement during the year	**(8,656,022)**	2,528,551
Balance at end of year	**11,525,824**	20,181,846
	₱455,995,470	₱515,662,941

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

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

	Percentages of Ownership		Carrying Amounts	
	2018	2017	**2018**	2017
Micro Benefits Limited	**23.53%**	23.53%	**₱377,307,980**	₱427,067,861
MatchMe Pte. Ltd.	**29.10**	28.59	**43,709,443**	51,668,837
Altitude Games Pte. Ltd.	**21.78**	21.78	**24,339,262**	26,327,413
PT Sembilan Digital Investama	**49.00**	49.00	**10,638,785**	10,506,945
Altitude Games Inc.	**21.17**	21.17	**–**	91,885
			₱455,995,470	₱515,662,941

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

Micro Benefit's registered office address is at 11th Floor, Club Lusitano, 16 Ice House Street, Central, Hong Kong.

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

In 2016, MatchMe issued 325,385 common shares to various individuals which resulted in the decrease in the Group ownership interest from 31.52% to 28.59%.

In 2018, MatchMe issued 1,547,729 ordinary shares worth US$0.079 per share or a total of

US$122,944. The Group subscribed to 467,820 ordinary shares for a total of US$37,161 or ₱1,977,018 resulting in an increase in percentage ownership from 28.59% to 29.10%.

MatchMe's registered office address is at 100 Cecil Street #10-01/002 the Globe, Singapore.

Altitude Games Pte. Ltd.
As at December 31, 2018 and 2017, the Group owns 21.78% ownership interest in Altitude Games. The Group acquired a total of 24.69 million shares with par value of US$0.01 per share for a total consideration of US$740,800 or US$0.03 per share.

Altitude Game's registered office address is at 16 Raffles Quay, #33-03, Hong Leong Building, Singapore.

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

SDI's registered office address is at J1. Pos Pengumben Raya No. 01 RT 010 RW 03, Kel Srengseng, Jakarta Barat.

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

Altitude Philippine's registered office address is at Unit A51 5th Floor Zeta II Bldg., Salcedo St. Legazpi Village, Makati City.

As of December 31, 2018, and 2017, there are no capital commitments relating to the Group's interests in its associates.

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

Following is the significant financial information of the associate with material interest:

Micro Benefits

	2018	2017
Current assets	**₱47,366,392**	₱118,405,999
Noncurrent assets	**90,497,755**	125,783,623
Current liabilities	**(36,564,334)**	(6,757,117)
Noncurrent liabilities	**(439,791,003)**	(364,449,487)
Total equity	**(338,491,190)**	(127,016,982)
Proportion of Group's ownership	**23.53%**	23.53%
Group's share in identifiable net assets	**(79,646,977)**	(29,887,096)
Goodwill and changes in fair value of net assets	**456,954,957**	456,954,957
Carrying amount of the investment	**₱377,307,980**	₱427,067,861

No dividends were received in 2018 and 2017.

	2018	2017
Total revenue	**₱85,040,814**	₱75,965,086
Total expenses	**262,009,977**	215,879,654
Net loss/ Total comprehensive loss	**(176,969,163)**	(139,914,568)
Group's share in net loss/ total comprehensive loss for the year	**(41,640,844)**	(32,921,898)

Aggregate financial information on associates with immaterial interest is as follows:

	2018	2017
Carrying amount	**₱78,687,490**	₱88,595,080
Group's share of net losses for the year	**(11,347,622)**	(3,799,457)
Group's share in total comprehensive loss	**(11,347,622)**	(3,799,457)

In 2018 and 2017, the Group performed impairment testing using a discounted cash flow analysis to determine value-in-use. Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital and growth rates.

- *Discount rate*
  The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the associates domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset beta of the associate. In 2018 and 2017, management assumed discount rates of 11.23% to 17.66% and 11.00 to 13.87%, respectively.

- *Growth rate*
  Average growth rates in revenues are based on the Group's expectation of market developments and the changes in the environment in which it operates. The Group uses revenue growth rates based on past historical performance as well as expectations on the results of its strategies. On the other hand, the perpetual growth rate used to compute for the terminal value is based on the forecasted long-term growth of real gross domestic product (GDP) of the economy in which the business operates. In 2018 and 2017, management assumed average growth rates in revenues of 5.00% to 42.94% and 5.00% to 48.48%, respectively, and terminal growth rates of 3.00 to 5.00%.

There was no impairment loss recognized in 2018 and 2017 for the Group's investments in associates.

10. **Property and Equipment**

Rollforward of this account is as follows:

<u>December 31, 2018</u>

	Transportation Equipment	**Office Equipment**	**IT Equipment**	**Furniture and Fixtures**	**Leasehold Improvements**	**Leased Asset**	**Total**
Cost							
At beginning of year	**₱120,536**	**₱11,012,103**	**₱43,599,878**	**₱12,326,671**	**₱60,034,040**	**₱4,967,610**	**₱132,060,838**
Additions	**–**	**1,192,186**	**14,582,231**	**56,572**	**2,523,357**	**–**	**18,354,346**
Retirements and disposals	**–**	**(1,773,570)**	**(25,952,487)**	**(1,472,458)**	**(1,273,231)**	**(963,070)**	**(31,434,816)**
Translation adjustments	**–**	**4,808**	**31,105**	**4,119**	**–**	**–**	**40,032**
At end of year	**120,536**	**10,435,527**	**32,260,727**	**10,914,904**	**61,284,166**	**4,004,540**	**119,020,400**
Accumulated Depreciation and Amortization							
At beginning of year	**120,536**	**8,698,118**	**14,984,208**	**6,657,036**	**23,089,260**	**2,366,049**	**55,915,207**
Depreciation and amortization (Notes 16 and 17)	**–**	**2,113,270**	**14,682,113**	**2,813,326**	**11,540,941**	**963,976**	**32,113,626**
Retirements and disposals	**–**	**(1,572,343)**	**(23,312,761)**	**(1,397,818)**	**(1,273,231)**	**(986,223)**	**(28,542,376)**
Translation adjustments	**–**	**2,429**	**7,629**	**3,088**	**–**	**–**	**13,146**
At end of year	**120,536**	**9,241,474**	**6,361,189**	**8,075,632**	**33,356,970**	**2,343,802**	**59,499,603**
Net Book Value	**₱–**	**₱1,194,053**	**₱25,899,538**	**₱2,839,272**	**₱27,927,196**	**₱1,660,738**	**₱59,520,797**

<u>December 31, 2017</u>

	Transportation Equipment	Office Equipment	IT Equipment	Furniture and Fixtures	Leasehold Improvements	Leased Asset	Total
Cost							
At beginning of year	₱3,696,444	₱8,515,567	₱26,790,279	₱11,373,737	₱55,704,738	₱4,667,410	₱110,748,175
Additions	–	3,074,609	18,027,657	952,160	4,329,302	1,112,000	27,495,728
Retirements and disposals	(3,575,908)	(587,610)	(1,278,425)	(9,880)	–	(811,800)	(6,263,623)
Translation adjustments	–	9,537	60,367	10,654	–	–	80,558
At end of year	120,536	11,012,103	43,599,878	12,326,671	60,034,040	4,967,610	132,060,838
Accumulated Depreciation and Amortization							
At beginning of year	3,658,040	7,242,377	2,543,175	3,741,228	10,656,937	2,378,655	30,220,412
Depreciation and amortization (Notes 16 and 17)	4,923	2,035,651	13,569,232	2,915,983	12,432,323	636,835	31,594,947
Retirements and disposals	(3,542,427)	(587,610)	(1,158,264)	(9,880)	–	(649,441)	(5,947,622)
Translation adjustments	–	7,700	30,065	9,705	–	–	47,470
At end of year	120,536	8,698,118	14,984,208	6,657,036	23,089,260	2,366,049	55,915,207
Net Book Value	₱–	₱2,313,985	₱28,615,670	₱5,669,635	₱36,944,780	₱2,601,561	₱76,145,631

Depreciation and amortization for the years ended December 31, 2018, 2017 and 2016 are charged as follows:

	2018	2017	2016
Cost of services (Note 16)	**₱2,240,598**	₱863,862	₱1,064,453
General and administrative expenses (Note 17)	**29,873,028**	30,731,085	25,213,228
	₱32,113,626	₱31,594,947	₱26,277,681

The Group retired and disposed property and equipment with cost amounting to ₱31.43 million resulting to a gain of ₱1.04 million in 2018, ₱6.26 million resulting to a loss of ₱0.32 million in 2017 and ₱14.07 million resulting to a gain of ₱0.62 million in 2016 recognized under "Other income (charges) - net" account (see Note 18).

There were no capitalized interest as at December 31, 2018 and 2017.

There were no property and equipment pledged as collateral as at December 31, 2018 and 2017.

11. Intangible Assets

This account consists of:

December 31, 2018

	Goodwill	**Customer Relationship**	**Developed Software**	**Leasehold Rights**	**Crypto-currencies**	**Total**
Cost						
At beginning of period	**₱2,544,617,520**	**₱1,077,809,700**	**₱197,646,597**	**₱17,378,812**	**₱–**	**₱3,837,452,629**
Additions	–	–	**18,609,327**	–	**184,527,714**	**203,137,041**
Disposals	–	–	**(7,410,618)**	–	**(176,529,320)**	**(183,939,938)**
Revaluation surplus	–	–	–	–	**(2,513,803)**	**(2,513,803)**
At end of period	**2,544,617,520**	**1,077,809,700**	**208,845,306**	**17,378,812**	**5,484,591**	**3,854,135,929**
Accumulated amortization						
At beginning of period	–	–	**57,461,907**	**6,110,616**	–	**63,572,523**
Amortization (Note 16)	–	–	**34,592,265**	**2,482,687**	–	**37,074,952**
Disposals	–	–	**(4,290,597)**	–	–	**(4,290,597)**
At end of period	–	–	**87,763,575**	**8,593,303**	–	**96,356,878**
Impairment (Note 17)	**144,855,367**	–	–	–	–	**144,855,367**
Net Book Value	**₱2,399,762,153**	**₱1,077,809,700**	**₱121,081,731**	**₱8,785,509**	**₱5,484,591**	**₱3,612,923,684**

December 31, 2017

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Total
Cost					
At beginning of year	₱2,544,617,520	₱1,077,809,700	₱187,074,790	₱17,378,812	₱3,826,880,822
Additions during the year	–	–	10,571,807	–	10,571,807
At end of year	2,544,617,520	1,077,809,700	197,646,597	17,378,812	3,837,452,629
Accumulated amortization					
At beginning of year	–	–	24,563,721	3,627,929	28,191,650
Amortization (Note 16)	–	–	32,898,186	2,482,687	35,380,873
At end of year	–	–	57,461,907	6,110,616	63,572,523
Net Book Value	₱2,544,617,520	₱1,077,809,700	₱140,184,690	₱11,268,196	₱3,773,880,106

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

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

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

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

Cryptocurrencies
Cryptocurrencies pertain to units of Bitcoin held by the Group as at December 31, 2018.

The fair value of cryptocurrencies was determined using quoted market prices in active markets categorized under Level 1 of fair value hierarchy. As at December 31, 2018, the fair value of Bitcoin is valued at USD3,742.70 per unit. For the year ended December 31, 2018, unrealized loss amounting to Php2.55 million was recognized as a result of revaluation of cryptocurrencies.

In 2018, the Group sold cryptocurrencies with cost amounting to ₱176.53 million. The Group recognized "Loss from sale of cryptocurrencies" and "Foreign exchange gain" under "Other income (charges)" amounting to ₱4.99 million and ₱2.47 million, respectively (see Note 18).

The amortization expense of intangible assets recognized in "Depreciation and amortization" under "Cost of services" in the consolidated statements of comprehensive income amounted to ₱37.07 million and ₱35.38 million in December 31, 2018 and 2017, respectively (see Note 16).

Impairment testing of goodwill and customer relationships with indefinite useful life
Goodwill and customer relationship acquired through business combinations were reviewed to look for any indication that an asset may be impaired. The Group used a discounted cash flow analysis to determine value-in-use. Value-in-use reflects an estimate of the future cash flows the Group expects to derive from the cash-generating unit, expectations about possible variations in the amount or timing of those future cash flows, the time value of money and the price for bearing the uncertainty inherent in the asset. The calculation of the value-in-use is based on reasonable and supportable assumptions, the most recent budgets and forecasts approved by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for market development.

Key Assumptions Used in Value-in-Use Calculations
Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital, growth rates, EBITDA margins, working capital and capital expenditure.

- *Discount rate*
  The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash

flows are based on risk-free interest rates in the relevant markets where the subsidiaries are domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas of these subsidiaries. In 2018 and 2017, management assumed discount rates of 12.47% to 14.76% and 14.01% to 20.28%, respectively.

- *Growth rate*
  Average growth rates in revenues are based on the Group's expectation of market developments and the changes in the environment in which it operates. The Group uses revenue growth rates based on past historical performance as well as expectations on the results of its strategies. On the other hand, the perpetual growth rate used to compute for the terminal value is based on the forecasted long-term growth of real gross domestic product (GDP) of the economy in which the business operates. In 2018 and 2017, management assumed average growth rates in revenues of 19.00% to 94.00% and 13.00% to 45.22%, respectively, and terminal growth rates of 3.00% to 6.00%.

- *EBITDA margin*
  The EBITDA margin represents the operating margin before depreciation and amortization and is estimated based on the margin achieved in the period immediately before the budget period and on estimated future development in the market. Committed operational efficiency programs are taken into consideration. In 2018 and 2017, management assumed EBITDA margin of 10.00% to 48.00% and 16.00% to 64.08%, respectively.

- *Capital expenditure*
  In computing the value-in-use, estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. Capital expenditures that improve or enhance the asset's performance therefore are not included. In 2018 and 2017, percentage of capital expenditures to revenues ranges from 0.12% to 1.91% and 0.02% to 0.67%, respectively.

Management recognizes that unfavorable conditions can materially affect the assumptions used in the determination of value-in-use. An increase of 10.5% to over 100.0% discount rates, or a reduction of growth rates of 20.0% to over 100.0% would give a value-in-use equal to the carrying amount of the cash generating units in 2018.

Impairment testing of goodwill
Goodwill acquired though business combinations pertain to the subsidiaries acquired in 2015 and 2016.

Allocation of goodwill to the CGUs is as follows:

	2018	2017
Art of Click Pte. Ltd.	**₱1,711,953,363**	₱1,856,808,730
Yondu, Inc. mobile consumer services (Yondu VAS)	**334,937,958**	334,937,958
Yondu, Inc. knowledge process outsourcing (Yondu BPO)	**205,209,959**	205,209,959
Storm Technologies, Inc.	**134,161,688**	134,161,688
Seer Technologies, Inc.	**13,499,185**	13,499,185
	₱2,399,762,153	₱2,544,617,520

The recoverable amounts have been based on value-in-use calculations using cash flow projections from forecasts provided by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady growth rates of 3% to 6%.

In 2018, based on the assessment of AOC's value-in-use compared to its net asset's carrying amount including goodwill, the Group recognized impairment loss amounting to ₱144.86 million (see Note 17). No impairment loss was recognized in 2017 for the goodwill arising from the business combinations.

Impairment testing of customer relationships
The recoverable amount of customer relationships was determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five-year period. The pre-tax discount rate applied to the cash-flow projections is 14.80% and 16.9% in 2018 and 2017, respectively. The growth rate used to extrapolate the cash flows beyond the five-year period is 6%. The growth rate is based on the long-term sustainable growth rates for the industry.

In 2018 and 2017, no impairment loss was recognized for the customer relationships.

12. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payables	**₱179,196,897**	₱218,584,771
Payable to related parties (Note 20)	**104,026,002**	102,534,280
Nontrade payable	**55,364,501**	–
Deferred output VAT	**42,673,696**	62,546,030
Accrued expenses	**42,658,546**	60,604,203
Taxes payable	**14,869,140**	29,000,225
Others	**215,733,365**	19,838,913
	₱654,522,147	₱493,108,422

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

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

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

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

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

Others consist of statutory payables to SSS, Philhealth and HDMF. This account also includes provision relating to the Token Pre-Sale Agreements ("PSA") entered into by the Group, through ODX, with various investors for the sale of ODX tokens (see Note 30). These are noninterest-bearing and are normally settled within one year.

13. Loans Payable

This account pertains to short-term, unsecured and interest bearing 30- to 180- day term loans entered into by the Group with different local banks and non-banks, with interest rates of 4.00% to 7.60% and 4.00% to 5.8125% in 2018 and 2017, respectively.

The rollforward analysis of this account follow:

	2018	2017
Balance at beginning of year	**₱377,419,000**	₱16,998,370
Availments of loans	**317,741,455**	407,419,000
Payment of loans	**(336,418,974)**	(46,998,370)
	₱358,741,481	₱377,419,000

Interest expense recognized in the consolidated statements of comprehensive income amounted to ₱25.20 million, ₱4.48 million and ₱1.49 million in 2018, 2017 and 2016, respectively (see Note 18).

Undrawn loan commitments amounted to ₱0.45 million and nil as of December 31, 2018 and 2017, respectively. There were no transaction costs and interest expenses capitalized in 2018 and 2017.

14. Other Current Liabilities

This account consists of:

	2018	2017
Dividends payable	**₱63,163,332**	₱38,152,639
Unearned revenues	–	37,830,783
Finance lease liability (Note 19)	**589,704**	1,188,930
	₱63,753,036	₱77,172,352

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

Unearned revenues pertain to amounts received from clients from which the Group will obtain funds to finance the goods purchased by the clients' employees. This account also includes advance payments made by customers and clients on which goods and services are yet to be delivered. Upon adoption of PFRS 15, unearned revenues are included in contract liabilities.

15. Service Income

Service income, amounting to ₱1,153.34 million, ₱2,009.55 million and ₱1,896.46 million in 2018, 2017 and 2016, respectively, pertain to revenues earned from mobile consumer products and services, mobile enterprise services and knowledge process outsourcing rendered by the Group to its major customer, GTI, and other telecommunication companies. Revenue from these segments are recognized at a point in time, except for revenues from Custom Development included under mobile enterprise services which are recognized over time.

In 2018, 2017 and 2016, the Group's revenue from GTI amounted to ₱604.90 million, ₱1,170.10 million and ₱1,315.22 million, respectively, which comprise approximately 52%, 58% and 69%, respectively, of the total service income of the Group.

16. **Cost of Services**

Cost of services consists of the following:

	2018	2017	2016
Salaries, wages and employee benefits	**₱724,500,182**	₱639,940,780	₱486,897,470
Outsourced services (Note 20)	**143,928,756**	463,381,883	368,534,252
Segment fee and network costs	**43,255,632**	71,145,105	97,065,281
Web hosting	**41,078,249**	50,553,473	47,846,951
Depreciation and amortization (Notes 10 and 11)	**39,315,550**	36,244,735	23,417,800
Royalty fees (Note 19)	**31,033,114**	81,309,693	48,444,694
Consultancy fees	**14,938,560**	8,605,350	6,496,179
Rent (Note 19)	**6,474,325**	11,228,412	8,383,837
Commissions	**3,921,691**	806,937	184,734
Utilities	**514,309**	1,887,804	6,016,390
Prizes and winnings	**93,080**	1,389,406	1,649,132
Seminar and trainings	**–**	215,284	37,940
Transportation and travel	**–**	–	3,169,465
Miscellaneous	**13,820,571**	6,705,642	3,751,474
	₱1,062,874,019	₱1,373,414,504	₱1,101,895,599

17. **General and Administrative Expenses**

This account consists of:

	2018	2017	2016
Provision for impairment losses (Notes 5 and 11)	**₱310,938,465**	₱106,539,273	₱387,325
Salaries, wages and employee benefits	**151,959,481**	163,022,037	126,487,520
Rent (Note 19)	**42,093,443**	33,171,842	30,630,037
Professional fees	**30,418,262**	48,025,457	43,306,503
Depreciation and amortization (Note 10)	**29,873,028**	30,731,085	25,213,228
Marketing and promotions	**20,039,431**	16,310,353	5,049,347
Taxes and licenses	**18,910,061**	43,660,122	18,645,365
Outsourced services	**15,271,403**	19,214,959	10,422,401
Utilities	**11,080,786**	14,101,056	15,761,555
Seminars and trainings	**9,791,573**	10,112,674	3,538,530
Entertainment, amusement and recreation	**9,318,601**	10,186,164	14,072,398
Transportation and travels	**9,247,485**	12,921,436	12,448,990
Dues and subscriptions	**6,990,692**	8,366,593	8,665,080
Advertising	**6,420,538**	16,017,585	12,279,821
Supplies	**3,210,261**	5,543,696	7,799,226
Directors' fees	**1,865,000**	1,722,500	1,875,000
Repairs and maintenance	**1,858,369**	6,891,063	6,925,257
Insurance	**1,628,628**	2,006,292	1,021,230
Miscellaneous	**20,128,870**	24,072,768	10,198,483
	₱701,044,377	₱572,616,955	₱354,727,296

18. **Other Income (Charges)**

This account consists of:

	2018	2017	2016
Gain from expiration of liability for written put option (Note 23)	**₱16,209,100**	₱–	₱–
Other income	**14,605,834**	18,280,576	7,884,608
Interest income (Note 4)	**444,430**	1,588,435	3,025,253
Realized gain from redemption of financial assets at FVPL	–	2,216,289	4,836,415
Gain (loss) on retirement and disposal of property and equipment (Note 10)	**1,041,683**	(316,001)	619,451
Unrealized loss on revaluation of cryptocurrencies (Note 11)	**(2,551,474)**	–	–
Bank charges	**(3,607,838)**	(14,936,940)	(689,795)
Loss from sale of cryptocurrencies (Note 11)	**(4,987,325)**	–	–
Foreign exchange gains (losses)	**(12,733,298)**	(9,611,563)	6,389,803
Interest expense	**(31,109,017)**	(5,904,716)	(13,018,341)
	(22,687,905)	(8,683,920)	9,047,394
Other income (charges) subsequent to a business combination (Note 23)			
Waiver of deferred purchase consideration	–	364,012,055	–
Foreign exchange losses	–	(26,594,140)	(22,778,615)
Accretion of unamortized interest expense	–	(30,916,092)	–
Interest expense on payable to former shareholders of a subsidiary	–	(61,633,130)	(21,959,259)
Additional payments to a former shareholder of a subsidiary	–	(153,956,515)	–
	–	90,912,178	(44,737,874)
	(₱22,687,905)	₱82,228,258	(₱35,690,480)

Other income pertains to gain on curtailment, gain on reversal of payables and other miscellaneous income.

Interest expense consists of:

	2018	2017	2016
Interest on loans payable (Notes 13 and 20)	**₱31,109,017**	₱5,904,716	₱1,493,655
Amortization of discount on liability for written put option (Note 23)	–	–	11,524,686
	₱31,109,017	₱5,904,716	₱13,018,341

19. **Agreements and Lease Commitments**

Agreements with Licensors
The Group entered into various agreements with licensors for the use of and or distribution of the licensors' products and services as mobile content. Under these agreements, the Group pays the licensors a certain percentage of revenues earned from the use and distribution of licensors' products and services. The amounts arising from these agreements are recorded as "Royalty fees" under "Cost of services", and the related liability are recorded as "Accrued expenses" under "Accounts and other payables". In 2018, 2017 and 2016, royalty fees amounted to ₱31.03 million, ₱81.31 million and ₱48.44 million, respectively (see Note 16).

Finance Lease
The Group entered into a finance lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term of three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.90% to 1.42% in 2018 and 0.83% to 1.12% in 2017 and 2016, respectively.

Details of finance lease liability recognized as of December 31, 2018 and 2017 follow:

	2018	2017
Finance lease liabilities	**₱615,092**	₱1,794,643
Less: Noncurrent portion	**25,388**	605,713
Current portion (Note 14)	**₱589,704**	₱1,188,930

The present value of future minimum payments follows:

	2018	2017
Not later than one year	**₱622,597**	₱1,332,023
Later than one year and not later than five years	**16,977**	639,574
Total minimum lease payments	**639,574**	1,971,597
Less: Amounts representing finance charges	**24,482**	176,954
	₱615,092	₱1,794,643

Carrying amount of assets under the finance lease amounted to ₱1.66 million and ₱2.60 million as of December 31, 2018 and 2017, respectively. These are presented as "Leased asset" under "Property and equipment" (see Note 10).

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

a. The Parent Company entered into a noncancellable lease contract with Gervel, Inc. for office space for a period of three (3) years which commenced on April 1, 2014 and expired on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

   In 2017, the Parent Company renewed this contract for a period of three (3) years which commenced on April 1, 2017 and will expire on March 21, 2020. The applicable rate per month is ₱0.27 million and a corresponding annual increase of 4%.

b. The Parent Company renewed a noncancellable lease contract with Gervel, Inc. for the office space for a period of one (1) year and six (6) months which commenced on October 1, 2015 and expired on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

   In 2017, the Parent Company renewed its contract for a period of three (3) years which commenced on April 1, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.29 million and a corresponding annual increase of 4%. The lease contract was pre-terminated through mutual agreement of the parties on March 30, 2019.

c. In 2017, the Parent Company entered into a noncancellable lease contract with Gervel, Inc. for an office space for a period of two (2) years and four and a half (4.5) months which commenced on November 16, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.33 million. The lease contract may be renewed in writing by mutual agreement of the parties.

d. Xeleb Technologies entered into a noncancellable lease agreement with TKS Holdings, Inc. for a period of two (2) years which commenced on May 1, 2015 and expired on April 30, 2017 for a monthly rental rate of ₱0.21 million for the first year and ₱0.23 million for the second year of lease.

   In 2017, Xeleb Technologies renewed the lease agreement with TKS Holdings, Inc. for a period of one (1) year which commenced on May 1, 2017 and expired on April 30, 2018. The applicable monthly rate is ₱0.29 million for both office and parking rentals.

e. In 2014, Storm entered into a noncancellable lease contract with CYG Trinkets Shop for a period of two (2) years which commenced from March 1, 2016 and expired on March 1, 2018. The applicable monthly rent amounts to ₱0.04 million.

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

g. In 2015, Storm entered into a cancellable lease contract with All Estate Realty Brokerage Inc. for a period of two (2) years which commenced on April 15, 2015 and expired on April 14, 2017. The lease contract may be renewed upon mutual agreement between the parties. Monthly rent applicable on the first year amounted to ₱0.05 million per month with 10% annual escalation rate on the second year.

   In 2017, Storm renewed its lease contract for another year which commenced on April 15, 2017 and expired on April 14, 2018. Monthly rent amounted to ₱0.05 million.

   In 2018, the lease contract was renewed for a period of one (1) year which commenced on April 15, 2018 and will expire on April 15, 2019.

h. In 2016, Storm entered into a noncancellable lease contract with United Tristar Realty Corporation for a period of nine (9) months which commenced on April 1, 2016 and expired December 31, 2016. The lease contract may be renewed upon mutual agreement between the parties. In 2017, Storm renewed its lease contract for another 1 year which will commence on January 1, 2017 and expired on December 31, 2017. Monthly rent amounted to ₱0.05 million per month.

In 2018, the lease contract was renewed for a period of one (1) year which commenced on October 1, 2018 and will expire on September 30, 2019. The applicable rate per month is ₱0.07 million and a corresponding annual increase of 4%.

i. In 2017, Storm entered into a cancellable lease contract with Richdale Resource Management Corporation for a period of one (1) year which commenced on February 10, 2017 and expired on February 8, 2018. Monthly rent applicable amounted to ₱0.05 million.

   In 2018, the lease contract was renewed for a period of one (1) year which commenced on February 15, 2018 and will expire on February 14, 2019.

j. In 2018, Storm entered into a cancellable agreement with North Lane Residences for a period of one (1) year which commenced on March 1, 2018 and will expire on February 29, 2019 with an applicable rental rate per month of ₱0.04 million.

k. In 2018, Storm entered into a cancellable agreement with San Mateo Heights Realty Corporation for a period of three (3) months which commenced on January 2, 2018 and expired on March 31, 2018 with an applicable rental rate for three (3) months of ₱0.38 million.

l. In 2013, Seer executed a lease contract with Super Prime Holdings Inc. for a lease term of three (3) years which commenced November 15, 2013 and expired on November 14, 2016. The applicable lease rate amounted to ₱0.15 million per month on the first year subject to 6% annual escalation rate.

m. In 2016, Seer executed a noncancellable lease contract with TKS Holdings, Inc. for a period of one (1) year which commenced on November 15, 2016 and expired on November 14, 2017. The applicable lease rate amounted to ₱0.20 million per month. The lease contract may be renewed upon agreement between the parties.

   In 2017, Seer renewed its lease contract on office units and parking slots for another year which commenced on November 15, 2017 and expired on November 14, 2018. The applicable monthly rate per month amounted to ₱0.22 million for both office units and parking slots.

n. In 2014, Codesignate entered into a lease agreement with Jecoprime Development Corporation for a period of two (2) years which commenced December 12, 2014 and expired on December 11, 2016. The applicable base rent amounted to ₱0.07 million per month.

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

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

q. In 2016, Yondu entered into a noncancellable lease contract with Panorama Development Corporation. The term of the lease is five and a half (5.5) years, which commenced on April 16, 2016 and will expire on October 31, 2021. The applicable rate per month for the first year is ₱0.80 million and a corresponding increase of 5% in the succeeding years.

r. In 2016, AOC entered into a noncancellable lease contract with Chan Pek Har & Loh Pek Har & Loh Lik Hwa. The term of the lease is two (2) years, which commenced on July 20, 2015 and expired on July 19, 2017. The applicable rate per month is SG$5,800.

   In 2017, AOC renewed its lease contract for one (1) year from July 20, 2017 to July 19, 2018 at a monthly rental of SG$5,465.

s. In 2018, AOC entered into a noncancellable lease agreement with Ong Soh Than for a period of one (1) year which commenced on July 23, 2018 and will expire on July 22,2019 with an applicable rental rate per month of SG$4,850.

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱48.57 million, ₱44.40 million and ₱39.01 million in 2018, 2017 and 2016, respectively (see Notes 16 and 17).

As at December 31, 2018 and 2017, the future minimum lease payments under noncancellable operating leases follow:

	2018	2017
Within one year	**₱40,023,138**	₱39,559,799
After one year but not more than 5 years	**60,706,688**	98,505,656
	₱100,729,826	₱138,065,455

20. Related Party Transactions

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

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

Details of transactions with related parties and their outstanding payables to a related party as at December 31, 2018 and 2017 follow:

					Outstanding Balance			
			Amount/Volume		**2018**		2017	
	Terms	**Conditions**	**2018**	2017	**Receivable**	**Payable**	Receivable	Payable
Associates								
Cost of services (a-c)	Noninterest-bearing	Unsecured	**₱373,198**	₱23,156,366	**₱–**	**₱19,208**	₱–	₱4,724,298
Advances (d, e)	Noninterest-bearing	Unsecured, no impairment	**550,461**	4,990,000	**5,808,461**	**–**	4,990,000	–
			923,659	28,146,366	**5,808,461**	**19,208**	4,990,000	4,724,298
Stockholders								
Payable to directors and officers (a)	Interest-bearing	Unsecured	**5,906,056**	98,564,572	**–**	**102,421,544**	–	97,809,982

(Forward)

			Amount/Volume		Outstanding Balance			
					2018		2017	
	Terms	Conditions	2018	2017	Receivable	Payable	Receivable	Payable
Payable to directors and officers (b)	Noninterest-bearing	Unsecured	**₱1,865,000**	₱1,722,500	**₱–**	**₱1,585,250**	₱–	₱–
Advances (c)	One year; noninterest-bearing	Unsecured, no impairment	**–**	2,500,000	**–**	**–**	2,500,000	–
			7,771,056	102,787,072	**–**	**104,006,794**	2,500,000	97,809,982
					₱5,808,461	**₱104,026,002**	₱7,490,000	₱102,534,280

Associates:

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

   In 2018, 2017 and 2016, the Group recognized "Outsourced services" under "Cost of services" amounting to nil, ₱7.42 million and ₱4.30 million, respectively, in relation to the aforementioned transaction. As at December 31, 2018 and 2017, payable to Altitude Games amounted to ₱0.19 million and ₱3.72 million, respectively.

b. In February 2016, the Group entered into a service agreement with Altitude Philippines, wherein the latter will render mobile content and application services in favor of the Group. In return, the Group shall pay Altitude Philippines a certain percentage of the revenues generated from such applications.

   Total outsourced services charged under "Cost of services" account in the consolidated statements of comprehensive income amounted to nil, ₱1.88 million and ₱5.10 million in 2018, 2017 and 2016, respectively, and outstanding payables amounted to nil and ₱1.01 million as of December 31, 2018 and 2017, respectively.

c. In 2016, the Parent Company was granted exclusive right to distribute "Globe with Friends," a game developed by MatchMe, an associate. As agreed by the parties, the Parent Company shall pay MatchMe a certain percentage of the revenues earned from the said game.

   For the years ended December 31, 2018, 2017 and 2016, the Group recognized "Outsourced services" under "Cost of services" amounting to ₱0.37 million, ₱13.86 million and ₱2.70 million, respectively. There were no outstanding payables to MatchMe as of December 31, 2018 and 2017.

d. In 2017, the Parent Company entered into a US$100,000 noninterest-bearing short-term loan agreement with Altitude Games for working capital purposes. As of December 31, 2018, and 2017, receivable from Altitude Games amounted to ₱5.26 million and ₱4.99 million, respectively.

e. In 2018, the Parent Company made payments on behalf of SDI for its outsourced services amounting to ₱0.55 million, which remained outstanding as of December 31, 2018.

Stockholders:

a. In 2017, the Parent Company entered into a loan agreement with its directors amounting to US$1,945,758 or ₱97.15 million subject to 5% interest rate per annum. The loan is due and demandable. For the years ended December 31, 2018 and 2017, the Group recognized interest expense amounting to ₱5.91 million and ₱1.42 million, respectively, under "Other income (charges)" in its consolidated statements of comprehensive income (see Note 18). As at

December 31, 2018 and 2017, outstanding loans and interest payable amounted to ₱100.22 million and ₱2.20 million, respectively, and ₱97.15 million and ₱0.66 million, respectively.

b. Payable to directors and officers also pertain to directors' fees amounting to ₱1.87 million and ₱1.72 million and nil in 2018, 2017 and 2016, respectively. Outstanding payable amounted to ₱1.59 million and nil as at December 31, 2018 and 2017, respectively.

c. Advances to stockholders pertain to cash advances for operational and corporate-related expenses subject to future liquidation. These are noninterest-bearing and are due and demandable.

Key management compensation
Compensation of key management personnel amounted to ₱97.10 million, ₱95.83 million and ₱41.96 million in 2018, 2017 and 2016, respectively.

Compensation of key management personnel by benefit type follows:

	2018	2017	2016
Short-term employee benefits	**₱91,986,269**	₱90,929,092	₱37,761,033
Post-employment benefits	**5,118,520**	4,896,785	4,200,558
	₱97,104,789	₱95,825,877	₱41,961,591

21. Income Taxes

Provision for income tax for the years ended December 31, 2018, 2017 and 2016 consists of the following:

	2018	2017	2016
Current	**₱52,065,923**	₱81,542,409	₱152,767,452
Final	**43,421**	123,219	572,968
Deferred	**92,397,605**	(62,198,529)	(39,071,653)
	₱144,506,949	₱19,467,099	₱114,268,767

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

Net deferred tax assets:

	2018	2017
Deferred tax assets on:		
NOLCO	**₱6,781,210**	₱36,615,958
Allowance for doubtful accounts	**6,229,376**	4,896,741
Accruals	**4,907,862**	55,897,498
Past service cost	**487,514**	696,449
Pension liability	**48,963**	9,390,775
Unrealized foreign currency exchange loss	**6,789**	–
Unutilized losses for the current year	–	6,018,963
Allowance for impairment of assets	–	1,182,203
MCIT	–	1,531,759
Provision for probable loss	–	1,681,109
	18,461,714	117,911,455
Deferred tax liabilities on:		
Unrealized foreign currency exchange gain	**1,757,877**	2,291,157
Remeasurement gain on retirement plan	**1,087,533**	–
Excess of percentage of completion over billed revenue	**959,779**	–
Pension asset	**423,085**	93,210
Discount on long-term loan	**46,748**	
	4,275,022	2,384,367
Net deferred tax assets	**₱14,186,692**	₱115,527,088

Net deferred tax liabilities:

	2018	2017
Deferred tax liabilities on fair value adjustment on intangible assets	**(₱352,729,028)**	(₱360,721,831)
Deferred tax assets on interest expense on liability for written put option	**–**	4,862,730
Net deferred tax liabilities	**(₱352,729,028)**	(₱355,859,101)

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. Below are the Group's deductible temporary differences for which no deferred tax assets are recognized since management believes that there are no sufficient taxable profits against which the deferred tax assets can be utilized:

	2018	2017
NOLCO	**₱467,613,479**	₱48,267,731
Allowance for impairment losses	**412,790,496**	–
Accrued expenses	**173,085,658**	–
Unrealized loss on financial assets at FVOCI	**44,244,957**	–
Pension liability	**15,129,319**	–
Excess of billed revenue over POC	**5,581,302**	–
Unrealized loss on revaluation of cryptocurrencies	**2,551,474**	
MCIT	**1,737,050**	39,651
Unrealized foreign exchange loss	**1,479,265**	–
	₱1,124,213,000	₱48,307,382

The carryforward NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deduction against income tax liabilities over a period of three years follow:

NOLCO:

Year Incurred	Beginning	Additions	Applied/ Expired	End	Year of Expiration
2015	₱34,777,339	₱–	₱34,777,339	₱–	2018
2016	40,686,981	–	–	40,686,981	2019
2017	94,856,604	–	–	94,856,604	2020
2018	–	354,673,927	–	354,673,927	2021
	₱170,320,924	₱354,673,927	₱34,777,339	₱490,217,512	

MCIT:

Year Incurred	Beginning	Additions	Applied/ Expired	End	Year of Expiration
2015	₱469,465	₱–	₱469,465	₱–	2018
2017	1,101,945	–	–	1,101,945	2020
2018	–	635,105	–	635,105	
	₱1,571,410	₱635,105	₱469,465	₱1,737,050	

In 2017, AOC recognized unutilized losses amounting to ₱6.02 million. This was derecognized in 2018.

The reconciliation between the statutory and effective income tax rates for the years ended December 31, 2018, 2017 and 2016 follows:

	2018	2017	2016
Statutory income tax rate	**(₱200,140,290)**	₱36,611,833	₱113,731,470
Adjustments resulting from:			
Changes in unrecognized deferred tax assets	**322,771,685**	16,090,335	469,205
Nondeductible loss from investment in associates	**15,896,540**	11,016,406	10,170,716
Effect of lower income tax rate	**4,950,591**	4,504,399	(16,136,550)
Nondeductible expenses	**594,804**	2,898,489	9,141,201
Expired MCIT	**469,465**	674,502	431,519
Effect of capital allowance utilized	**25,246**	(17,689,124)	(2,212,058)
Reversal for allowance for doubtful accounts	**–**	674,258	597,433
Effect of tax rebate	**–**	–	(695,487)
Effect of income tax exemption	**–**	–	(901,525)
Nontaxable income (Note 18)	**–**	(35,251,895)	–
Interest income subjected to final tax	**(61,093)**	(62,104)	(327,157)
Provision for income tax	**₱144,506,949**	₱19,467,099	₱114,268,767

22. **Retirement and Other Long-term Employee Benefits**

The Group, except for Yondu, does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act No. 7641) which is of the defined benefit type and provides a retirement benefit equal to 22.5 days' pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement.

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

The funds of the Plan are administered by a trustee bank, BPI Asset Management and Trust Group, under the supervision of the Board of Trustee (BOT) of the Plan. The BOT is responsible for the investment strategy of the Plan.

The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate and salary increase rate were based on historical and projected rates. Annual cost is determined using the projected unit credit actuarial valuation method.

The components of net pension expense in the consolidated statements of comprehensive income are as follows:

	2018	2017	2016
Current service cost	**₱5,488,022**	₱10,959,802	₱9,083,236
Net interest cost on benefit obligation	**1,510,424**	1,201,518	2,066,825
Past service cost - curtailment	**(1,408,264)**	(3,307,689)	(7,618,102)
	₱5,590,182	₱8,853,631	₱3,531,959

The Group recognized pension expense amounting to ₱5.49 million, ₱11.78 million and ₱9.30 million included in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income in 2018, 2017 and 2016, respectively.

The Group undertook restructuring in 2018, 2017 and 2016 which caused a significant reduction in the headcount. Specifically, the decline in the number of employees covered by the Group’s plan included 53, 19 and 3 officers with 16 years tenure as at December 31, 2018, 2017 and 2016, respectively. Accordingly, pension expense, net of curtailment recognition, amounting to ₱5.59 million was recognized in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income in 2018 while, curtailment recognition, net of pension expense, amounting to ₱2.92 million and ₱5.77 million was recognized under “Other income” in the consolidated statements of comprehensive income in 2017 and 2016, respectively.

The accrued pension of the Group is as follows:

	2018	2017
Present value of benefit obligation	**₱36,699,615**	₱45,535,913
Fair value of plan assets	**(14,588,805)**	(14,544,029)
Net pension liability position	**₱22,110,810**	₱30,991,884

As of December 31, 2018 and 2017, pension asset amounted to ₱1.41 million and ₱0.31 million, respectively, and pension liabilities amounted to ₱23.52 million and ₱31.30 million, respectively.

The following table presents the changes in the present value of defined benefit obligation and fair value of plan assets.

Present value of defined benefit obligation

	2018	2017
Balance at beginning of year	**₱45,535,913**	₱40,651,835
Current service cost	**5,488,022**	10,959,802
Interest cost on benefit obligation	**2,579,138**	2,269,241
Past service cost - curtailment	**(1,408,264)**	(3,307,689)
Net actuarial gains	**(15,495,194)**	(5,037,276)
	₱36,699,615	₱45,535,913

Fair value of plan assets

	2018	2017
Balance at beginning of year	**₱14,544,029**	₱14,131,399
Interest income	**1,068,714**	1,067,723
Actual return excluding amount included in net interest cost	**(1,023,938)**	(655,093)
Balance at end of year	**₱14,588,805**	₱14,544,029
Actual return on plan assets	**₱44,776**	₱412,630

The fair value of plan assets by each class as of December 31, 2018 and 2017 is as follows:

	2018	2017
Investment in mutual funds	**₱11,431,807**	₱11,087,918
Investment in UITF	**2,672,164**	3,455,792
Equities	**483,742**	–
Cash	**1,092**	319
	₱14,588,805	₱14,544,029

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

Remeasurement gain on defined benefit plan under consolidated statements of comprehensive income follow:

	2018	2017	2016
Actuarial gain on defined benefit obligation	**₱15,495,194**	₱5,037,276	₱9,051,911
Actual return excluding amount included in net interest cost	**(1,023,938)**	(655,093)	(142,861)
Tax effect relating to actuarial gain	**(5,345,695)**	(1,314,655)	(2,672,715)
	₱9,125,561	₱3,067,528	₱6,236,335

Actuarial loss on defined benefit pension plan recorded under “Retirement benefit reserve” in the consolidated statements of changes in equity follow:

	2018	2017	2016
Balance at beginning of year	**₱2,596,015**	₱5,663,543	₱11,899,877
Actuarial gain on defined benefit obligation	**(15,495,194)**	(5,037,276)	(9,051,911)
Actual return excluding amount included in net interest cost	**1,023,938**	655,093	142,861
Tax effect relating to actuarial gain	**5,345,695**	1,314,655	2,672,715
	(₱6,529,546)	₱2,596,015	₱5,663,542
Attributable to:			
Equity holders of Xurpas Inc.	**(₱3,441,396)**	₱3,478,395	₱5,229,023
Noncontrolling interests	**(3,088,150)**	(882,380)	434,519
	(₱6,529,546)	₱2,596,015	₱5,663,542

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

	2018	2017	2016
Discount rate	**7.42 - 7.80%**	5.77 - 6.80%	5.00 - 5.86%
Salary projection rate	**3.00 - 8.00%**	5.00 - 7.00%	5.00 - 8.00%

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

		Effect on DBO	
		2018	2017
Discount rate	(+) 1.0%	**(₱4,702,690)**	(₱4,022,294)
	(−) 1.0%	**5,617,652**	5,421,780
Salary increase rate	(+) 1.0%	**6,245,288**	5,550,551
	(−) 1.0%	**(5,262,820)**	(4,092,782)

The weighted average duration of defined benefit obligation at the end of the reporting period is 13.00 to 30.20 years and 17.70 to 31.30 years in 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

	2018	2017
Within 1 year	**₱1,358,992**	₱1,120,389
More than 1 year to 5 years	**923,509**	1,201,789
More than 5 years	**537,322,827**	895,381,553
	₱539,605,328	₱897,703,731

The Group expects to contribute ₱8.25 million to the retirement fund in 2019.

Other Long-Term Employee Benefits

In 2017, the Group recognized other long-term benefits expense amounting to ₱35.67 million for an employee of a subsidiary. This is included in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income. As of December 31, 2018, outstanding payable amounting to ₱18.33 million is recognized as “Others” under “Accounts and other payables” in the consolidated statements of financial position.

23. Business Combinations and Acquisition of Noncontrolling Interests

Business Combinations

Art of Click Pte. Ltd.

On October 6, 2016, the Parent Company executed a Share Purchase Agreement for the acquisition of 100% shares of Art of Click Pte. Ltd. for an aggregate consideration of ₱1.40 billion in cash and in Parent Company’s shares. AOC is a Singaporean start-up firm established in 2011 that specializes on mobile marketing solutions for advertisers, publishers, app developers, and other operators. Its key markets include Japan, Korea, Hong Kong, Taiwan, Southeast Asia, North America and Europe.

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

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

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

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

The Installment Payment payable and Deferred Purchase Consideration in the next three years amounting to ₱760.69 million was initially recognized under "Payable to former shareholders of a subsidiary" in the consolidated statements of financial position. These were measured at its fair value as at acquisition date using an assumed discount rate of 11.55%. In 2016, interest expense and foreign exchange loss amounting to ₱21.96 million and ₱22.78 million, respectively, were recognized in "Other income (charges)" in the consolidated statements of comprehensive income and is reflected in the net income attributable to the equity holders of the Parent Company (see Note 18).

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

In June 2017, the Parent Company entered into an agreement to reacquire the 53,298,242 common shares Upfront Payment issued at acquisition date to Emmanuel Michel Jean Allix ("Allix"), a former shareholder of AOC, for a consideration of US$532,983 or ₱26.65 million (see Note 24). On the same date, amendments were made to the share purchase agreement with Allix which (a) resulted in the payment of US$7.24 million or ₱358.50 million, (b) changed the manner of payment of the Installment Payment payable and Deferred Purchase Consideration from being partly in cash and Xurpas shares to solely in cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. The additional payment and the buyback of the common shares are linked transactions and in substance is accounted for as an equity transaction for accounting purposes. Based on the agreement, only the ₱26.65 million is presented as treasury shares while the remaining amount of ₱358.50 million is presented under equity reserve in the consolidated statements of financial position. The change from being payable in three years to being payable within the year resulted in the acceleration of the accretion of unamortized interest expense amounting to ₱26.00 million (see Note 18).

In October 2017, the Parent Company entered into an agreement to amend the share purchase agreement with Wavemaker Labs Pte. Ltd. (“Wavemaker”), a former shareholder of AOC, which provides for (a) the adjusted purchase price, (b) the change in manner of payment for the Installment Payment and Deferred Consideration pertaining to Wavemaker from being payable in Xurpas shares to cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. To implement these amendments, there will be a placement and subscription transaction involving 67,285,706 Xurpas listed shares of existing shareholders by way of a block sale through the facilities of the PSE in 2018. The amendments resulted in an additional payable to Wavemaker amounting to US$3.01 million or ₱153.96 million which was recognized as a loss under “Other income (charges)” in the consolidated statements of comprehensive income (see Note 18). The change in the timing of the payment resulted in an acceleration of the accretion of unamortized interest expense amounting to ₱4.92 million (see Note 18). The amendments were ratified by the BOD on February 22, 2018.

The 16,641,244 common shares initially issued to Wavemaker representing the Upfront Payment shall be placed by Wavemaker in an escrow agent who is authorized to sell these shares after these are listed. The allocation of the proceeds from the sale of these shares will be determined in the future subject to certain conditions. As of April 30, 2019, the conditions have not been met.

In October 2017, Allix and Wavemaker executed a waiver of the second and third tranches of the Deferred Purchase Consideration. Since the waiver is not considered as a measurement period adjustment as allowed under PFRS 3 to adjust the recorded acquisition cost of the Parent Company’s investment, the extinguishment of the liability amounting to US$7.11 million or ₱364.01 million is recognized as a gain under “Other income (charges)” in the consolidated statements of comprehensive income (see Note 18). The Sellers also waived their call option on the shares.

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

The following are the fair values of the identifiable assets and liabilities assumed after the finalization of the purchase price allocation in 2017:

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

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

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

The fair value of the intangible asset was based on net present value of future cash flows using the "Relief from Royalty" method.

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

From the date of acquisition on October 6, 2016, the Group's share in the revenue and net income of AOC amounted to ₱477.95 million and ₱120.34 million, respectively. If the combination had taken

place at the beginning of 2016, the Group's total revenue and total net income would have been ₱2,120.93 million and ₱334.01 million, respectively.

Cash outflow related to the acquisition follows:

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

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

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

A financial liability amounting to ₱848.50 million was initially recognized in the consolidated statements of financial position for the redemption obligation related to the written put option over the shares held by GTI. The liability was initially recognized at the present value of the redemption price at acquisition date. For the years ended December 31, 2018, 2017 and 2016, interest expense amounting to nil, nil and ₱11.52 million, respectively, was recognized in the consolidated statements of comprehensive income in “Other income (charges)” and is reflected in the net income attributable to the equity holders of the Parent Company.

In September 2018, the call and put options remained unexercised and were terminated in line with their expiration resulting to a gain amounting to ₱16.21 million recognized under “Other charges (income)”. As at December 31, 2018 and 2017, the carrying value of the financial liability amounted to nil and ₱864.71 million.

Acquisition of Noncontrolling Interests

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

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

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

Storm Technologies, Inc.
On October 27, 2016, the Parent Company acquired additional 3,735 common shares of Storm for ₱10.00 million. This brought the Parent Company’s ownership from 51.52% to 56.60% of the outstanding capital stock of Storm and there was no change in control. This resulted in the recognition of equity reserves amounting to ₱7.62 million (see Note 24).

24. Equity

The details of the Parent Company’s capital stock follow:

	2018	2017
Authorized shares	**5,000,000,000**	5,000,000,000
Par value per share	**₱0.10**	₱0.10
Issued shares	**1,934,925,852**	1,867,640,146
Treasury shares	**63,985,642**	63,985,642
Value of shares issued	**₱193,492,586**	₱186,764,015
Value of treasury shares	**(₱115,464,275)**	(₱115,464,275)

The Parent Company is a corporation having a renewable term of 50 years. As of December 31, 2018, the Parent Company’s remaining corporate life is 33 years.

In accordance with Securities Regulation Code Rule 68, As amended (2011), Annex 68-D, below is the summary of the Parent Company's track record of registration of securities as of December 31:

	Number of shares registered	Issue/offer price	Date of approval	**2018** Number of holders of securities as of December 31	2017 Number of holders of securities as of December 31
Common shares	344,000,000	₱3.97 issue price	November 13, 2014	26	23

Overnight Top-Up Placement
On April 29, 2016, the Parent Company issued 77.70 million shares with par value of ₱0.10 for a total consideration of ₱1,243.20 million or ₱16.00 per share. The excess of subscription price over paid-up capital was recognized as APIC. The Parent Company incurred transaction costs incidental to the share issuance amounting to ₱44.82 million which were charged to "Additional paid-in capital" in the consolidated statements of financial position.

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

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

<u>Retained Earnings</u>
Appropriations
On December 29, 2015, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱65.82 million. On November 10, 2017, such was released from appropriation.

On November 9, 2016, the BOD of the Parent Company approved the appropriation of unrestricted retained earnings for the buyback of its common shares up to the extent of the total allotment amounting to ₱170.00 million subject to the prevailing market price at the time of the share buyback.

On March 27, 2017, the BOD of the Parent Company approved the termination of the buyback program adopted in 2016. A total of ₱88.82 million has been used under the said program. Accordingly, the balance of ₱81.18 million previously allocated for the buyback program was released from such appropriation.

On July 18, 2017, the BOD of the Parent Company approved the appropriation of unrestricted retained earnings for the buyback of its common shares amounting to ₱26.65 million.

Appropriated retained earnings amounted to ₱115.46 million as of December 31, 2018 and 2017.

Dividends declaration
On May 10, 2016, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱0.048 per share, or the aggregate amount of ₱86.29 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as at May 31, 2016 and payable to stockholders on June 23, 2016.

On May 8, 2017, the Parent Company's BOD approved the declaration of cash dividends in the amount of ₱92.85 million or ₱0.05 per share in favor of the Parent Company's common stockholders of record as of May 23, 2017, payable on or before June 15, 2017.

The Parent Company has no outstanding dividends payable as of December 31, 2018 and 2017.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to nil and ₱93.43 million, respectively. Retained earnings also include undistributed net earnings amounting to ₱98.34 million and ₱211.36 million as of December 31, 2018 and 2017, respectively, representing accumulated equity in the net earnings of subsidiaries and associates. These are not available for dividend distribution unless declared by subsidiaries and associates.

The dividend declaration of Yondu resulted in reduction in NCI amounting to ₱39.91 million, ₱59.90 million and ₱4.90 million in 2018, 2017 and 2016, respectively.

Equity Reserve
In 2015, a reserve amounting to ₱848.50 million was set up in relation to a recognized financial liability for the written put option over the ownership interest of GTI in Yondu. In 2018, this was subsequently reversed as a result of the expiration of the option.

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

	Consideration paid	Carrying value of noncontrolling interests	Difference recognized within Equity
Xeleb Technologies Inc.	₱45,000,000	₱3,506,647	(₱41,493,353)
Storm Technologies Inc.	10,002,330	2,382,396	(7,619,934)
Xeleb Inc.	1,650,000	7,038,398	5,388,398
	₱56,652,330	₱12,927,441	(₱43,724,889)

In 2017, a reserve amounting to ₱358.50 million was recognized for the payment resulting from amendments in the Share Purchase Agreement with Allix and the acquisition of the Parent Company's own shares (see Note 23).

Treasury Stock
On November 9, 2016, the BOD of the Parent Company approved the buyback of its common shares up to the extent of the total allotment amounting to ₱170.00 million subject to the prevailing market price at the time of the buyback. The Parent Company commenced the program on November 14, 2016 and ends upon full usage of the approved allotment, or as otherwise may be directed by the BOD, subject to an appropriate disclosure to the SEC and PSE. As at December 31, 2016, treasury stocks acquired totaled to 8,532,900 shares which amounted to ₱71.51 million.

In January and February 2017, the Parent Company acquired 2,154,500 shares for ₱17.30 million.

On March 27, 2017, the BOD of the Parent Company approved the termination of the buyback program adopted in 2016. Treasury stocks acquired under this program totaled to 10,687,400 shares amounting to ₱88.82 million.

On July 18, 2017, the Parent Company reacquired 53,298,242 common shares from Allix for a total amount US$532,983 or ₱26.65 million (see Note 23).

Employee Stock Option Plan
The Parent Company's BOD, on January 20, 2016, and the stockholders, on May 11, 2016, approved the Employee Stock Option Plan (the Plan) of the Parent Company. Full time and regular employees of the Parent Company and those deemed qualified by the Compensation and Remuneration Committee from the names recommended by the Executive Committee are eligible to participate in the Plan. As at December 31, 2018, the Plan has been filed with and is pending approval of the SEC and PSE.

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

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

The Group's sources of capital follow:

	2018	2017
Capital stock	**₱193,492,585**	₱186,764,015
Additional paid-in capital	**3,592,076,662**	3,343,119,550
Retained earnings	**–**	322,730,858
	₱3,785,569,247	₱3,852,614,423

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies during the years ended December 31, 2018 and 2017.

25. Subsidiary with Material Noncontrolling Interests

Noncontrolling interests pertain to the following percentage interests in subsidiaries that the Parent Company does not own. The summarized financial information is provided below for the subsidiary with material noncontrolling interest. This information is based on the amounts before intercompany eliminations.

The Parent Company considers a subsidiary with material noncontrolling interests if its net assets exceed 5.00% of its total consolidated net assets of the Group as of reporting period and considers the relevance of the nature of activities of the entity compared to other operations of the Group. There are no significant restrictions on the Parent Company's ability to use assets and settle liabilities of the Group.

Yondu, Inc.

	2018	2017
Proportion of equity interests held by noncontrolling interests	**49.00%**	49.00%
Accumulated balances of noncontrolling interests	**₱784,232,345**	₱790,397,620
Profit allocated to noncontrolling interests	**31,505,621**	52,481,168
Other comprehensive income allocated to noncontrolling interests	**1,643,456**	386,684
Total comprehensive income allocated to noncontrolling interests	**33,149,077**	52,867,852

	2018	2017
Statements of financial position		
Current assets	**₱548,384,746**	₱595,104,760
Noncurrent assets	**1,743,348,029**	1,767,964,968
Current liabilities	**216,478,738**	261,628,359
Noncurrent liabilities	**341,866,029**	345,947,571
Total equity	**1,733,388,008**	1,755,493,798
Attributable to:		
Equity holders of Xurpas Inc.	**949,155,663**	965,096,178
Noncontrolling interests	**784,232,345**	790,397,620

	For the years ended December 31	
	2018	2017
Statements of comprehensive income		
Revenue	**₱862,816,632**	₱886,038,834
Cost and expenses	**772,235,401**	732,141,984
Income before income tax	**90,581,231**	153,896,850
Provision for income tax	**26,284,045**	46,792,427
Income from operations	**64,297,186**	107,104,423
Other comprehensive income	**3,353,992**	789,152
Total comprehensive income	**67,651,178**	107,893,575
Attributable to:		
Equity holders of Xurpas Inc.	**34,502,101**	55,025,723
Noncontrolling interests	**33,149,077**	52,867,852

	For the years ended December 31	
	2018	2017
Statements of cash flows		
Net cash provided by operating activities	**₱82,582,705**	₱75,671,108
Net cash used in investing activities	**(6,957,923)**	(2,412,735)
Net cash used in financing activities	**(32,624,962)**	(112,609,730)
Effect of exchange rate changes	**187,680**	781,446

26. **Earnings Per Share**

The Group's earnings (loss) per share for the years ended December 31, 2018, 2017 and 2016 were computed as follow:

	2018	2017	2016
Net income (loss) attributable to the equity holders of the Parent Company	**(₱765,794,458)**	₱35,765,776	₱215,304,020
Weighted average number of outstanding shares	**1,859,695,202**	1,840,345,403	1,788,554,700
Dilutive shares arising from payable to former shareholders of a subsidiary	**–**	–	28,209,155
Adjusted weighted average number of common shares for diluted earnings per share	**1,859,695,202**	1,840,345,403	1,816,763,855
Basic earnings (loss) per share	**(₱0.41)**	₱0.02	₱0.12
Diluted earnings (loss) per share	**(₱0.41)**	₱0.02	₱0.12

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

In 2016, future issuance of shares in relation to the consideration for the acquisition of 100.00% ownership in AOC has a dilutive effect on the computation of earnings per share.

27. **Financial Instruments**

Fair Value Information

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

- Cash, accounts and other receivables (except for advances to employees which are subject to liquidation), refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding "Taxes payable", "Deferred output VAT", and provision relating to PSA and statutory payables included as "Others"), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments, except for cash bond under other noncurrent assets. The difference between carrying amount and fair value is immaterial.

- Financial assets at FVOCI, AFS quoted equity investments - Fair value is based on quoted prices published in the market.

- Financial assets at FVOCI (unquoted equity investments) - Fair values are based on the latest selling price available.

- Financial assets at FVPL (unquoted debt investments) - Fair values are based on the comparable prices adjusted for specific market factors such as nature, industry, location and market recovery rates.

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

- Nontrade payable - Fair values are determined using prices in such transaction which still approximate the fair values at yearend.

The fair values and carrying values of financial assets at FVPL and AFS financial assets are as follows:

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets at fair value through other comprehensive income	**₱475,000**	**₱475,000**	₱–	₱–
AFS financial assets				
Quoted equity security	–	–	380,000	380,000
Unquoted equity security	–	–	44,244,956	44,244,956
Unquoted debt investments	–	–	114,428,123	114,428,123

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

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

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

Quoted financial assets at FVOCI amounting to ₱0.48 million and AFS financial assets amounting to ₱0.38 million as of December 31, 2018 and 2017 were classified under Level 2 (see Note 7).

Unquoted financial assets at FVOCI amounting to nil and ₱158.67 million as of December 31, 2018 and 2017 were classified under Level 3 (see Note 7).

As at December 31, 2018 and 2017, there have been no reclassifications from Level 1 to Level 2 or 3 categories.

Financial Risk Management and Objectives and Policies
The Group's financial instruments comprise cash, financial assets at FVPL, accounts and other receivables, AFS financial assets, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding taxes payable, deferred output VAT, and statutory payables), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities, which

arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.

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

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

There were no changes in the Group's risk management objectives and policies in 2018 and 2017.

The Group's risk management policies are summarized below:

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

The Group's credit risk is primarily attributable to cash in bank and accounts and other receivables. Credit risk management involves monitoring its exposure to credit risk on a continuous basis.

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

The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 36% and 58% of its total trade receivables as at December 31, 2018 and 2017, respectively (see Note 5). Recent economic condition and market segment of GTI shows its continuing growth and success.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rate is based on days past due of all customers as they have similar loss patterns. The expected credit loss rate ranges from 0.40% to 68.12% that resulted in the ECL of ₱265.02 million and ₱113.79 million as of December 31, 2018 and 2017, respectively.

The Group's credit risk exposure on its trade receivables using provision matrix are as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱–	₱–	₱12,606,435	₱758,789,089	₱771,395,524
Loss allowance	–	–	(12,606,435)	(252,417,937)	(265,024,372)
Carrying amount	₱–	₱	₱–	₱506,371,152	₱506,371,152

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

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

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

Unquoted financial assets at FVOCI are unrated.

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

The table summarizes the maturity profile of the Group's financial assets and liabilities and contract assets as at December 31, 2018 and 2017 based on contractual undiscounted payments:

December 31, 2018

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	**₱177,396,187**	**₱–**	**₱–**	**₱177,396,187**
Accounts and other receivables				
Trade receivables	**506,371,152**	–	–	**506,371,152**
Receivable from related parties	**5,808,461**	–	–	**5,808,461**
Others	**13,693,032**	–	–	**13,693,032**
Financial asset at FVOCI	**475,000**	–	–	**475,000**
Other current assets				
Refundable deposits	**11,437,282**	–	–	**11,437,282**
Other noncurrent assets				
Cash bond	–	**1,065,485**	–	**1,065,485**
Total undiscounted financial assets	**715,181,114**	**1,065,485**	–	**716,246,599**
Contract assets	**9,748,084**	–	–	**9,748,084**
Total undiscounted financial assets and contract assets	**724,929,198**	**1,065,485**	–	**725,994,683**
Financial Liabilities				
Trade and other payables				
Trade payables	**179,196,897**	–	–	**179,196,897**
Payable to related parties	**104,006,794**	–	–	**104,006,794**
Nontrade payable	**55,364,501**	–	–	**55,364,501**
Accrued expenses	**42,658,546**	–	–	**42,658,546**
Loans payable	**358,741,481**	**8,285,211**	–	**367,026,692**
Finance lease liability	**589,704**	**25,388**	–	**615,092**
Total undiscounted financial liabilities	**740,557,923**	**8,310,599**	–	**748,868,522**
Liquidity gap	**(₱15,628,725)**	**(₱7,245,114)**	**₱–**	**(₱22,873,839)**

December 31, 2017

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱215,254,510	₱–	₱–	₱215,254,510
Accounts and other receivables				
Trade receivables	933,361,381	–	–	933,361,381
Receivable from related parties	7,490,000	–	–	7,490,000
Others	13,449,238	–	–	13,449,238
AFS financial assets	–	159,053,079	–	159,053,079
Other current assets				
Refundable deposits	8,149,786	–	–	8,149,786
Other noncurrent assets				
Cash bond	–	65,485	–	65,485
Total undiscounted financial assets	1,177,704,915	159,118,564	–	1,336,823,479
Financial Liabilities				
Trade and other payables				
Trade payables	218,584,771	–	–	218,584,771
Payable to related parties	102,534,280	–	–	102,534,280
Accrued expenses	60,604,203	–	–	60,604,203
Loans payable	377,419,000	–	–	377,419,000
Finance lease liability	1,188,930	605,713	–	1,794,643
Liability for written put option	864,705,965	–	–	864,705,965
Payable to former shareholders of a subsidiary	244,426,311	–	–	244,426,311
Total undiscounted financial liabilities	1,869,463,460	605,713	–	1,870,069,173
Liquidity gap	(₱691,758,545)	₱158,512,851	₱–	(₱533,245,694)

December 31, 2016

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱428,517,653	₱–	₱–	₱428,517,653
Financial assets at FVPL	335,915,489	–	–	335,915,489
Accounts and other receivables				
Trade receivables	933,663,242	–	–	933,663,242
Receivable from related parties	43,990	–	–	43,990
Others	17,126,242	–	–	17,126,242
AFS financial assets	108,428,123	44,544,956	–	152,973,079
Other current assets				
Refundable deposits	4,339,029	–	–	4,339,029
Other noncurrent assets				
Cash bond	–	65,485	–	65,485
Total undiscounted financial assets	1,828,033,768	44,610,441	–	1,872,644,209
Financial Liabilities				
Trade and other payables				
Payable to related parties	4,207,681	–	–	4,207,681
Trade payable	1,857,614	–	–	1,857,614
Salaries payable	1,006,160	–	–	1,006,160
Accrued expenses	521,042	–	–	521,042
Loans payable	3,000,000	13,998,370	–	16,998,370
Finance lease liability	1,575,804	1,185,880	–	2,761,684
Liability for written put option	864,705,965	–	–	864,705,965
Payable to former shareholders of a subsidiary	314,133,411	491,292,825	–	805,426,236
Total undiscounted financial liabilities	1,191,007,677	506,477,075	–	1,697,484,752
Liquidity gap	₱637,026,091	(₱461,866,634)	₱–	₱175,159,457

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with the corresponding nominal amounts and carrying values are shown in the following table:

December 31, 2018

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	**₱177,615,174**	**₱177,615,174**	**₱–**	**₱–**	**₱177,615,174**
Loans payable	Variable at 4.00% to 5.8125%	Monthly	**358,741,480**	**358,741,480**	**–**	**–**	**358,741,480**
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	**615,092**	**589,704**	**25,388**	**–**	**615,092**
Payable to shareholders	Fixed at 5%	n/a	**100,216,884**	**100,216,884**	**–**	**–**	**100,216,884**
			₱637,188,630	**₱637,163,242**	**₱25,388**	**₱–**	**₱637,188,630**

December 31, 2017

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	₱214,868,915	₱214,868,915	₱–	₱–	₱214,868,915
AFS financial assets							
Floating							
SGD	Variable at 3.5% to 4.5%	Annually	3,602,123	–	3,602,123	–	3,602,123
Fixed							
USD	Fixed at 5%	n/a	52,495,000	38,440,000	14,055,000	–	52,495,000
USD	Fixed at 3% and 3.75%	n/a	28,856,000	28,856,000	–	–	28,856,000
USD	Fixed at 3%	n/a	23,475,000	–	23,475,000	–	23,475,000
Loans payable	Variable at 4.00% to 5.8125%	Monthly	377,419,000	377,419,000	–	–	377,419,000
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	1,794,643	1,188,930	605,713	–	1,794,643
Payable to shareholders	Fixed at 5%	n/a	99,151,697	99,151,697	–	–	99,151,697
			₱801,662,378	₱759,924,542	₱41,737,836	₱–	₱801,662,378

December 31, 2016

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	₱420,404,602	₱420,404,602	₱–	₱–	₱420,404,602
AFS financial assets							
Floating							
SGD	Variable at 3.5% to 4.5%	Annually	3,602,123	–	3,602,123	–	3,602,123
Fixed							
USD	Fixed at 5%	n/a	52,495,000	38,440,000	14,055,000	–	52,495,000
USD	Fixed at 3% and 3.75%	n/a	28,856,000	28,856,000	–	–	28,856,000
USD	Fixed at 3%	n/a	23,475,000	–	23,475,000	–	23,475,000
Loans payable	Fixed at 6.75%	n/a	16,998,370	3,000,000	13,998,370	–	16,998,370
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	2,761,684	1,575,804	1,185,880	–	2,761,684
			₱548,592,779	₱492,276,406	₱56,316,373	₱–	₱548,592,779

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

The following table shows the outstanding foreign currency-denominated monetary assets and their respective Philippine peso equivalent as of December 31, 2018 and 2017.

	2018		2017	
	Original currency	**Peso equivalent**	Original currency	Peso equivalent
Cash in bank				
US Dollar (USD)	**97,672**	**₱5,149,284**	873,869	₱43,632,270
Singapore Dollar (SGD)	**1,476,604**	**56,804,937**	121,464	4,533,375
Indonesian Rupiah (IDR)	**–**	**–**	8,901,826	32,937
Trade receivables				
US Dollar (USD)	**1,108,773**	**58,454,513**	6,714,902	335,275,070
Singapore Dollar (SGD)	**8,015,590**	**308,359,732**	241,325	9,006,931
Saudi Arabia Rial (SAR)	**2,798**	**39,312**	334,825	4,457,227
Euro (EUR)	**32,654**	**1,969,363**	31,654	1,792,039
U.A.E. Dirham (AED)	**25,320**	**363,595**	23,447	318,763
Hong Kong Dollar (HKD)	**3,188**	**21,455**	422	2,693
Taiwan Dollar (TWD)	**351**	**600**	351	589
Total foreign currency denominated assets		**431,162,791**		399,051,894
Trade Payables				
US Dollar (USD)	**6,090,123**	**321,071,285**	2,213,370	110,513,564
Singapore Dollar (SGD)	**2,941,641**	**113,164,936**	251,014	9,368,527
Indonesian Rupiah (IDR)	**–**	**–**	5,000,000	18,500
Total foreign currency denominated liabilities		**434,236,221**		119,900,591
Net foreign currency denominated financial instruments		**(₱3,073,430)**		₱279,151,303

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

	2018	2017
USD to ₱	**₱52.72**	₱49.93
SGD to ₱	**38.47**	37.32
IDR to ₱	**0.004**	0.004
SAR to ₱	**14.05**	13.31
EUR to ₱	**60.31**	56.61
AED to ₱	**14.36**	13.59
HKD to ₱	**6.73**	6.38
TWD to ₱	**1.71**	1.68

Equity Price Risk
Equity price risk is the risk that the financial assets whose values will fluctuate as a result of changes in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in market. As of December 31, 2018 and 2017, the Group has minimal exposure in equity price risk since the Group's quoted AFS amounted to nil. Moreover, the Group's investments in AFS are generally perceived as not highly susceptible to the equity price risk since the shares are issued by stable company and are not subjected to other than temporary decline

There is no impact on the Group's equity other than those already affecting net income.

28. **Segment Reporting**

The industry segments where the Group operates follow:

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

The following tables regarding business segment revenue and profit information for the years ended December 31, 2018, 2017 and 2016:

2018

	Mobile consumer services	**Enterprise services**	**Other services**	**Intersegment adjustments**	**Consolidated**
INCOME					
Service income	**₱314,237,156**	**₱909,854,454**	**₱7,142,270**	**₱77,891,396**	**₱1,153,342,484**
Sale of goods	–	–	**88,845,797**	–	**88,845,797**
	314,237,156	**909,854,454**	**95,988,067**	**77,891,391**	**1,242,188,286**
COST AND EXPENSES	**(1,126,781,765)**	**(940,466,356)**	**(167,130,298)**	**(400,732,207)**	**(1,833,646,212)**
Equity in net losses of associates	–	–	–	**(52,988,467)**	**52,988,467**
Other (income) charges - net	**16,585,189**	**(715,225)**	**(8,374,556)**	**(27,631,840)**	**35,127,248**
	(795,959,420)	**(31,327,127)**	**(79,516,787)**	**(242,220,509)**	**(664,582,825)**
Provision for income tax	**5,321,397**	**20,774,335**	**25,135,981**	**(93,275,237)**	**144,506,950**
Net income (loss)	**(₱801,280,817)**	**(₱52,101,462)**	**(₱104,652,768)**	**(₱148,945,271)**	**(₱809,089,775)**
Net loss attributable to:					
Equity holders of Xurpas Inc.					**(₱765,794,458)**
Noncontrolling interests					**(45,846,791)**
					(₱811,641,249)

2017

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱1,599,595,564	₱721,362,136	₱5,674,500	(₱317,081,184)	₱2,009,551,016
Sale of goods	–	–	94,018,662	–	94,018,662
	1,599,595,564	721,362,136	99,693,162	(317,081,184)	2,103,569,678
COST AND EXPENSES	(1,424,342,213)	(721,942,502)	(169,432,118)	288,679,607	(2,027,037,226)
Equity in net losses of associates	–	–	–	(36,721,355)	(36,721,355)
Other (income) charges - net	(207,175,098)	(5,088,295)	1,306,424	128,728,618	(82,228,351)
	382,428,449	4,507,929	(71,045,380)	(193,851,550)	122,039,448
Provision for (benefit from) income tax	64,630,265	27,491,072	(7,224,690)	(65,429,549)	19,467,098
Net income (loss)	₱317,798,184	(₱22,983,143)	(₱63,820,690)	(₱128,422,001)	₱102,572,350
Net income attributable to:					
Equity holders of Xurpas Inc.					₱36,349,951
Noncontrolling interests					66,222,399
					₱102,572,350

2016

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱1,324,582,926	₱660,589,609	₱3,392,600	(₱92,105,104)	₱1,896,460,031
Sale of goods	–	–	50,678,833	–	50,678,833
	1,324,582,926	660,589,609	54,071,433	(92,105,104)	1,947,138,864
COST AND EXPENSES	(909,880,547)	(564,009,746)	(102,495,482)	77,944,682	(1,498,441,093)
Equity in net losses of associates	–	–	–	(33,902,387)	(33,902,387)
Other (income) charges - net	19,198,855	(6,216,357)	(46,286)	22,754,270	35,690,482
	395,503,524	102,796,220	(48,377,763)	(70,817,079)	379,104,902
Provision for (benefit from) income tax	107,023,187	26,859,251	(11,890,178)	(7,723,493)	114,268,767
Net income (loss)	₱288,480,337	₱75,936,969	(₱36,487,585)	(₱63,093,586)	₱264,836,135
Net income attributable to:					
Equity holders of Xurpas Inc.					₱215,304,022
Noncontrolling interests					49,532,113
					₱264,836,135

The following tables present business segment assets and liabilities as at December 31, 2018 and 2017:

2018

	Mobile consumer services	**Enterprise services**	**Other services**	**Intersegment adjustments**	**Consolidated**
Other information					
Segment assets	**₱4,327,932,152**	**₱625,205,086**	**₱96,494,474**	**(₱97,253,309)**	**₱4,952,378,403**
Deferred tax assets	**1,825,761**	**28,494,512**	**6,592,302**	**(21,721,243)**	**15,191,332**
Total assets	**4,329,757,913**	**653,699,598**	**103,086,776**	**(118,974,552)**	**4,967,569,735**
Segment liabilities	**1,214,435,143**	**452,518,107**	**218,843,982**	**(738,545,397)**	**1,147,251,834**
Deferred tax liabilities	**–**	**1,004,640**		**352,729,028**	**353,733,668**
Segment liabilities	**₱1,214,435,143**	**₱453,522,747**	**₱218,843,982**	**(₱385,816,369)**	**₱1,500,985,502**

2017

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱5,338,888,976	₱451,357,473	₱70,325,713	(₱165,918,968)	₱5,694,653,194
Deferred tax assets	50,768,130	15,617,556	29,959,092	19,182,307	115,527,085
Total assets	5,389,657,106	466,975,029	100,284,805	(146,736,661)	5,810,180,279
Segment liabilities	1,562,816,025	263,449,084	123,857,976	148,698,843	2,098,821,928
Deferred tax liabilities	–	–	–	355,859,101	355,859,101
Segment liabilities	₱1,562,816,025	₱263,449,084	₱123,857,976	₱504,557,944	₱2,454,681,029

2016

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱4,482,402,205	₱369,948,861	₱66,521,158	₱1,492,386,712	₱6,411,258,936
Deferred tax assets	28,825,521	10,823,750	22,441,558	184,703	62,275,532
Total assets	4,511,227,726	380,772,611	88,962,716	1,492,571,415	6,473,534,468
Segment liabilities	1,310,684,803	172,676,879	46,665,740	793,050,247	2,323,077,669
Deferred tax liabilities	17,530,035	–	–	346,321,870	363,851,905
Segment liabilities	₱1,328,214,838	₱172,676,879	₱46,665,740	₱1,139,372,117	₱2,686,929,574

29. Notes to Consolidated Statement of Cash Flows

Disclosed below is the rollforward of liabilities under financing activities:

	January 1, 2018	Cash flows	Non-cash changes	Foreign exchange movement	December 31, 2018
Loans payable	₱377,419,000	(₱18,677,519)	₱–	₱–	₱358,741,481
Dividends payable	38,152,639	(13,819,758)	38,830,452	–	63,163,333
Finance lease liability	1,794,643	–	(1,179,551)	–	615,092
Total liabilities from financing activities	₱417,366,282	(₱32,497,277)	₱37,650,901	₱–	₱422,519,906

	January 1, 2017	Cash flows	Non-cash changes	Foreign exchange movement	December 31, 2017
Current loans payable	₱3,000,000	₱374,419,000	₱–	₱–	₱377,419,000
Noncurrent loans payable	13,998,370	(13,998,370)	–	–	–
Dividends payable	116,486,508	(231,078,267)	115,768,748	–	1,176,989
Finance lease liability	2,589,692	(1,863,531)	1,068,482	–	1,794,643
Total liabilities from financing activities	₱136,074,570	₱127,478,832	₱116,837,230	₱–	₱380,390,632

The noncash investing and financing activities of the Group are as follows:

- Unrealized gain on financial assets at FVOCI amounted to ₱95,000 in 2018.
- Unrealized gain on available-for-sale financial assets amounted to nil and ₱60,000 in 2017 and 2016, respectively.
- Cumulative translation adjustments recognized under “Investments in associates” amounted to ₱8.66 million, ₱2.53 million and ₱4.16 million for 2018, 2017 and 2016, respectively.
- As of December 31, 2018, 2017 and 2016, outstanding dividends payable pertaining to dividends declared to noncontrolling interests amounted to ₱63.16 million, ₱38.15 million and ₱4.40 million, respectively, under “Other current liabilities”.
- As of December 31, 2018, 2017 and 2016, additions to property and equipment has outstanding payable amounting to ₱0.76 million, ₱1.11 million and ₱1.79 million, respectively.
- As of December 31, 2018, 2017 and 2016, additions to intangible asset has outstanding payable amounting to ₱203.14 million, ₱10.57 million and ₱14.44 million, respectively.
- In 2018, Storm issued 3,601 common shares to various individuals resulting to the Parent Company’s dilution of ownership from 56.60% to 53.96% in Storm. The transfer of the Parent Company’s share in the accumulated net losses of Storm to the noncontrolling interest amounted to ₱3.19 million.
- As a result of the business combinations in 2016, the Group acquired receivables, other current assets, property and equipment, accounts and other payables, income tax payable, other current liabilities, loans payable, net deferred tax liabilities and pension liability. See Note 23 for acquisition-date assets and liabilities acquired through business combination. Also, goodwill and intangible assets acquired through business combination amounted to ₱1,856.81 million and ₱61.51 million, respectively, in 2016.

30. **Provisions and Contingencies**

The Group is currently involved in assessments for national taxes and the outcome of these assessments is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these assessments, if any, will not have a material effect on the Group's financial position and results of operations. The information usually required under PAS 37 is not disclosed on the ground that it may prejudice the outcome of the assessments.

The Group, through ODX, entered into Token Pre-Sale Agreements ("PSA") with various investors for the sale of ODX tokens. Investment received from the PSA amounted to USD3.54 million (equivalent to ₱184.53 million) as of December 31, 2018 (see Note 12).

The Group, through ODX, also entered into advisory agreements with various advisors for which the services received are to be paid through internally generated tokens in the future and for which the obligation cannot be measured with sufficient reliability.

31. **Events After Reporting Date**

On February 20, 2019, the BOD approved the availment of loan from the Parent Company's founders with an aggregate amount of ₱150.00 million, of which ₱120.00 million has been received as of April 30, 2019. The proceeds of the loan will be used by the Parent Company to fund enterprise projects and general corporate purposes.

On April 8, 2019, the Parent Company issued 415,000 shares taken from its treasury shares for a price of ₱1.23 per share. Total proceeds from the transaction amounted to ₱510,450.

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and have issued our report thereon dated April 30, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules A to K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332588, January 3, 2019, Makati City

April 30, 2019

XURPAS INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Schedule	Contents
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock
I	Reconciliation of Retained Earnings Available for Dividend Declaration
J	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsidiaries
K	Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards
L	Financial Ratios

SCHEDULE A

XURPAS INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Loans and receivables			
Cash			
Cash on hand	₱–	₱217,029	₱–
Cash in banks			
Bank of the Philippine Islands			
Current Account	–	8,385,964	89,537
Savings Account	–	3,384,385	16,561
US Dollar Account	–	154,426	195
Robinsons Bank			
Savings Account	–	730,300	–
Security Bank			
Savings Account	–	8,210,304	95,143
US Dollar Account	–	574,736	7,932
Unionbank			
Current Account	–	3,422,635	–
Savings Account	–	81,324,285	53,715
US Dollar Account	–	2,465,162	1,770
China Bank			
Savings Account	–	3,786,048	11,749
US Dollar Account	–	100,318	4,495
Metrobank			
Savings Account	–	313,008	877
Asia United Bank			
Current Account	–	97,972	–
Banco De Oro			
Current Account	–	7,070,874	62,848.
Savings Account	–	34,612	–
CIMB Niaga Bank	–	148,357	–
CIMB Bank			
US Dollar Account	–	24,168,868	–
SG Dollar Account	–	5,916,939	99,608
OCBC Bank			
US Dollar Account	–	24,445,638	–
SG Dollar Account	–	1,008,606	–
Paypal	–	1,435,720	–
Accounts and other receivables			
Trade	–	771,395,524	–
Receivable from related parties	–	5,808,461	–
Others	–	13,693,032	–
	–	968,293,203	444,430
Financial assets at fair value through other comprehensive income			
Unquoted debt investments	–	–	–
Unquoted equity investment	–	–	–
Quoted equity investment	–	475,000	–
	–	475,000	–
	₱–	₱968,768,203	₱444,430

SCHEDULE B

XURPAS INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Write off	Current	Noncurrent	Balance at the end of the year
Advances to employees	₱5,159,944	₱463,382	(₱859,286)	₱–	₱4,764,040	₱–	₱4,764,040
Accounts receivable from directors, officers, KMP and employees	2,500,000	–	–	(2,500,000)	–	–	–
	₱7,659,944	₱463,382	(₱859,286)	(₱2,500,000)	₱4,764,040	₱–	₱4,764,040

SCHEDULE C

XURPAS INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

	Amount owed by Xurpas Parent to Xurpas Subsidiaries			
	Receivable balance per Xurpas Parent	Payable balance per Xurpas Subsidiaries	Current	Noncurrent
ODX Pte. Ltd	₱187,516,648	₱187,516,648	₱187,516,648	₱–
Xeleb Technologies Inc. and subsidiary	191,562,591	191,562,591	191,562,591	–
Art of Click Pte. Ltd.	18,058,075	18,058,075	18,058,075	–
Yondu Inc.	2,394,300	2,394,300	2,394,300	–
Xurpas Enterprise Inc.	142,800	142,800	142,800	–
Subtotal	₱399,674,414	₱399,674,414	₱399,674,414	₱–

	Amount owed by Xurpas Subsidiaries to Xurpas Parent			
	Receivable balance per Xurpas Subsidiaries	Payable balance per Xurpas Parent	Current	Noncurrent
Storm Inc.	₱98,482,617	₱98,482,617	₱98,482,617	₱–
Xurpas Enterprise Inc.	66,324,485	66,324,485	66,324,485	–
Yondu Inc.	31,153,208	31,153,208	31,153,208	–
Seer Technologies Inc.	24,361,821	24,361,821	24,361,821	–
Art of Click Pte. Ltd.	14,466,801	14,466,801	14,466,801	–
Xeleb Technologies Inc. and subsidiary	10,007,845	10,007,845	10,007,845	–
ODX Pte. Ltd.	2,835,679	2,835,679	2,835,679	–
Subtotal	₱247,632,456	₱247,632,456	₱247,632,456	₱–

	Amount owed to Xurpas Subsidiary to Xurpas Subsidiary		
Receivable to	Payable from	Current	Noncurrent
Xurpas Enterprise Inc.	Art of Click Pte. Ltd.	₱17,491,119	₱–
Xeleb Technologies Inc.	Xurpas Enterprise Inc.	11,129,433	–
Yondu Inc.	Seer Technologies Inc.	5,823,803	–
Seer Technologies Inc.	Xurpas Enterprise Inc.	5,538,628	–
Yondu Inc.	Xurpas Enterprise Inc.	2,902,191	–
Xurpas Enterprise Inc.	Storm Technologies Inc.	858,055	–
Xeleb Technologies Inc.	Seer Technologies Inc.	168,000	–
Storm Technologies Inc.	Seer Technologies Inc.	59,619	–
Subtotal		₱43,970,848	₱–
Total eliminated receivables		₱691,277,718	₱–

XURPAS INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS

Description	Beginning balance	Acquired through business combination	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	₱2,544,617,520	₱–	₱–	(₱144,855,367)	₱–	₱–	₱2,399,762,153
Customer relationship	1,077,809,700	–	–	–	–	–	1,077,809,700
Developed software	140,184,690	–	18,609,327	(34,592,265)	–	(3,120,021)	121,081,731
Leasehold rights	11,268,196	–	–	(2,482,687)	–	–	8,785,509
Cryptocurrencies	–	–	184,527,714	–		(179,043,123)	5,484,591
	₱3,773,880,106	₱–	₱203,137,041	(₱181,930,319)	₱–	(₱182,163,144)	₱3,612,923,684

SCHEDULE E

XURPAS INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

		Long-term Debt	
Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption “current portion of long-term” in related balance sheet	Amount shown under caption “long-term debt” in related balance sheet

The Group does not have long-term loans.

XURPAS INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period

The Group does not have long-term loans from related companies in its consolidated statements of financial position.

SCHEDULE G

XURPAS INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
Not Applicable				
The Group does not have any guarantees of securities of other issuing entities by the issuer for which the consolidated financial statements is filed.				

XURPAS INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK

Capital Stock						
Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	5,000,000,000	1,870,940,210*	–	–	1,147,122,226	723,817,984

**Net of treasury shares.*

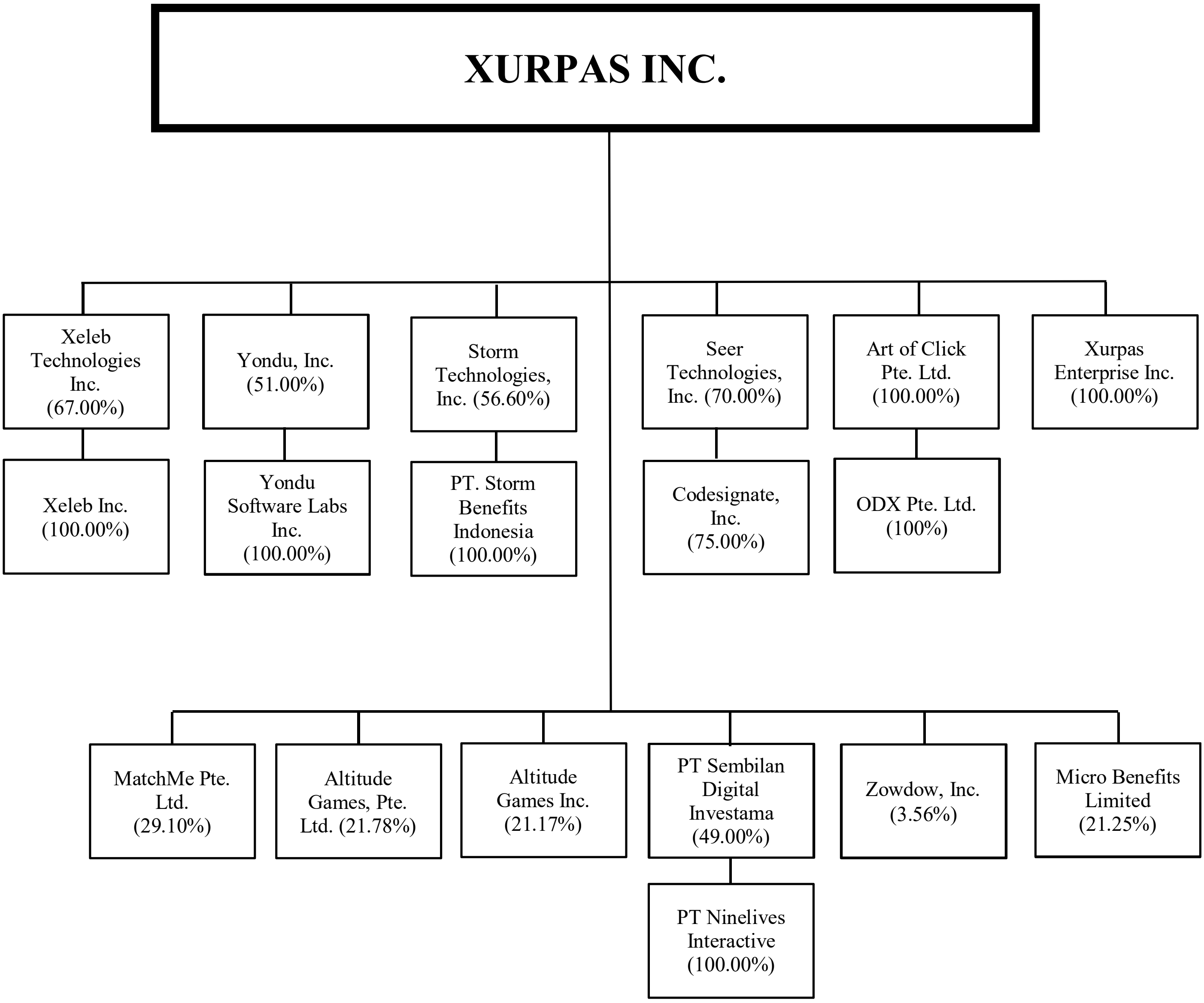
XURPAS INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

Unappropriated Retained Earnings, beginning, as restated	₱299,391,561
Less adjustments:	
Adjustment due to adoption of PFRS 9	4,235,074
Deferred tax assets	(59,998,998)
Fair value adjustments	(248,818,855)
Unappropriated Retained Earnings, as adjusted, beginning	(5,191,218)
Net Income based on the face of AFS	(557,747,690)
Less: Non-actual/unrealized income net of tax	
Amount of provision for deferred tax during the year	59,998,998
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	(394,008)
Fair value adjustment (M2M gains)	248,818,855
Impairment loss	175,846,935
Net Income Actual/Realized	(73,476,910)
Less: Other adjustments	
Dividend declarations during the period	–
Reversal of appropriation for share buy-back transactions	–
Reversal of appropriation for dividend declaration	–
Appropriations during the year	–
	–
Unappropriated retained earnings, end available for dividend distribution	₱–

SCHEDULE J

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



SCHEDULE K

XURPAS INC. AND SUBSIDIARIES

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

DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Estimates and Errors			
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicabl e
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases - Incentives			✓
Philippine Interpretation SIC-25	Income Taxes - hanges in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets - Web Site Costs			✓

Standards tagged as "Not Applicable" have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2018.

XURPAS INC. AND SUBSIDIARIES
FINANCIAL RATIOS

Financial Ratios	2018	2017
A. Current ratios		
Current ratios	69%	54%
Quick ratios	64%	51%
B. Debt-to-equity ratios	55%	97%
C. Asset-to-equity ratios	183%	231%
D. Interest rate coverage ratios	(2,045%)	281%
E. Profitability ratios		
Net income (loss) margin	(62%)	2%
Gross margin	9%	31%
Operating margin	(46%)	12%
Return on total assets	(14%)	1%
Return on equity	(22%)	1%