

MANAGEMENT REPORT

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

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

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

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

- In February 2015, the Company acquired a 51% controlling stake in Storm Flex Systems, Inc. (currently registered as Storm Technologies, Inc., referred herein as “Storm”), to enable Xurpas to expand beyond telecommunication networks and into corporations through offering human resource (“HR”) technology solutions. As of March 31, 2018, Xurpas owns 57% controlling stake in Storm.
- In June 2015, Xurpas acquired 70% controlling stake in Seer Technologies Inc. (“Seer”), a company engaged in software consultancy, design, development and managed services focused on mobile, cloud and data technologies. In the same month, the incorporation of Xeleb Inc. (“Xeleb”) was approved by the Securities and Exchange Commission (the “Commission”). Xeleb is engaged in the development, design, sale and distribution of celebrity-branded games and applications.
- In September 2015, the Company acquired 51% controlling stake in Yondu Inc. (“Yondu”), originally a Globe Telecom wholly-owned subsidiary which is presently engaged in the development and creation of wireless products and services accessible through telephones or other forms of communication devices and media networks. It also provides internet and mobile value added services, and information technology and technical services including software development and related services.
- Xurpas Enterprise Inc. (“Xurpas Enterprise”) was incorporated in March 2016. Xurpas Enterprise was created to primarily engage in the business of software development including designing, upgrading, and marketing all kinds of information technology systems to corporate clients. In the same month, the Company acquired 23.53% ownership in Micro Benefits Limited (“Micro Benefits”), a company registered in Hong Kong. Micro Benefits is engaged in the business of providing employee benefits to Chinese workers through its operating company, Micro Benefits Financial Consulting (Suzhou) Co. Ltd, China.
- On October 6, 2016, Xurpas acquired 100% stake in Art of Click Pte. Ltd (“AOC”), a company registered under the laws of Singapore and engaged in the business of mobile media advertising that offers a marketing platform for advertisers.

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

On April 27, 2018, ODX Pte. Ltd. was incorporated in Singapore. The said entity aims to allow consumers in emerging markets to access the internet for free, through sponsored data packages. The board of directors (the “**Board**”) of the Company has approved on May 15, 2018 ODX Pte. Ltd.’s fund raising activity the proceeds of which will be used to build the ODX infrastructure.

PRODUCTS AND SERVICES

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

Mobile Consumer Services

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

Enterprise Services

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

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

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

Other Services

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

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

The consolidated financial statements of the Group, which comprise of the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017 were audited by SGV & Co., independent auditors, in accordance with Philippine Standards on Auditing (PSA).

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

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

OVERVIEW

The following are the Company's percentage ownership in its subsidiaries and associates as of April 15, 2018:

	Percentage of Ownership
Xeleb Technologies Inc. (formerly Fluxion, Inc.)	67.00%
Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.)	56.60%
Pt. Storm Benefits Indonesia	56.60%
Xeleb Inc.	67.00%
Seer Technologies Inc.	70.00%
Codesignate Inc.	52.50%
Yondu Inc.	51.00%
Yondu Software Labs Inc.	51.00%
Xurpas Enterprise Inc.	100.00%
Art of Click Pte. Ltd.	100.00%
PT Sembilan Digital Investama	49.00%
MatchMe Pte. Ltd.	28.59%
Micro Benefits limited	23.53%
Altitude Games Pte. Ltd	21.78%
Altitude Games Inc.	21.17%

On April 27, 2018, ODX Pte. Ltd. was incorporated in Singapore as a wholly owned subsidiary of Xurpas Inc.

STRATEGIC BUSINESS UPDATES

Year 2017 has been a year of transition for the Company. The Group concentrated on transforming into a platform company, with various platforms pilot-tested or launched across its various subsidiaries. Coupled with this are challenges and positive developments in the company's business segments.

Mobile Consumer Services

AOC experienced a slowdown in revenues after a strong start in early 2017. The Company is implementing a recovery plan specifically to improve the client mix of AOC, to include traditional advertisers. In March 2018, the Company hired an executive who has relevant experience in this target segment. AOC is continuously evaluating the recovery plan it has to implement to improve AOC's

performance. For the comparable period 1Q2018 vs 1Q2017, revenues of AOC decreased by 89%; while 4Q2017 vs 1Q2017 revenues, was a decline of 27%.

Likewise, in 1Q2018, Globe implemented new rules requiring Value Added Services (VAS) providers to migrate to a new system that will have stricter opt-in rules for mobile subscriptions. A campaign for the re opt-in of the subscriber base will have to be done. This has affected the VAS revenues of Xurpas, decreasing by 62% (1Q2018 vs 1Q2017) and the VAS revenues of one of its subsidiaries, Yondu, with a decline by 51%. Xurpas' platform initiatives in this business segment, however, are starting to gain some ground and will be ready for full deployment in 2018.

Enterprise Services

Some areas of Xurpas' enterprise business grew, particularly on the outsourcing and IT staffing businesses of Yondu. Growth can be attributed to the new BPO clients who have started to outsource engineering talent through Yondu's services. In the previous years, Yondu's outsourcing business was heavily concentrated in the telecom sector.

The growth of Yondu in this segment was offset by the decrease in business for the other enterprise subsidiaries of Xurpas. A number of engineering resources of these subsidiaries focused on in-house platform development. At present, Xurpas bears the fully loaded costs of the product teams dedicated to its platforms, without generating client revenue to cover for the expenses. The Company believes that this is a necessary expenditure as it continues to develop these platforms.

Other Services

Storm sustained its revenue growth in 1Q2018, adding a number of new clients to be serviced this year. In addition, Storm is working closely with Xurpas' affiliate, Microbenefits, to introduce its 'Company IQ' HRIS platform in the Philippines, naming it PocketHR.

Incorporation of ODX Pte. Ltd.

On April 27, 2018, ODX Pte. Ltd. ("**ODX**") was incorporated in Singapore as a wholly owned subsidiary of Xurpas Inc. The Company subscribed to 50,000 ordinary shares at S\$1.00 per share in ODX. The said entity aims to allow consumers in emerging markets to access the internet for free, through sponsored data packages.

The Board of the Company has approved on May 15, 2018 ODX's proposed fund raising activity the proceeds of which will be used to build the ODX infrastructure. ODX intends to sell up to \$US100 million worth of ODX tokens. The tokens will not be sold in the Philippines.

First Quarter of 2018 compared with First Quarter of 2017

Financial Summary

Key Financial Data In PhP Millions	For the 3 months ended March 31					
	2018		2017		Amount Change	% Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	122.34	37%	578.37	77%	(456.03)	-79%
Enterprise services	177.46	54%	160.31	21%	17.15	11%
Other services	27.22	8%	10.32	1%	16.90	164%
<i>Total Revenues</i>	327.03	100%	749.00	100%	(421.97)	-56%
Cost of Services	247.03	76%	497.36	66%	(250.33)	-50%
Cost of Goods Sold	20.32	6%	8.00	1%	12.32	154%
Gross Profit	59.67	18%	243.64	33%	(183.97)	-76%
General and Administrative Expenses	134.03	41%	102.04	14%	31.99	31%
Equity in Net Loss of Associates	10.82	3%	13.03	2%	(2.21)	-17%
Other charges (income) - net	15.41	5%	0.99	0%	14.42	1457%
Income (Loss) Before Income Tax	(100.59)	-31%	127.58	17%	(228.17)	-179%
Provision for (Benefit from) Income Tax	(22.65)	-7%	24.34	3%	(46.99)	-193%
Net Income (Loss)	(77.93)	-24%	103.24	14%	(181.17)	-175%
Other Comprehensive Income	6.42	2%	7.87	1%	(1.45)	-18%
Total Comprehensive Income (Loss)	(71.52)	-22%	111.11	15%	(182.63)	-164%

	March 31, 2018 (Unaudited) Amount	Dec. 31, 2017 (Audited) Amount	Amount Change	% Increase (Decrease)
Total Assets	5,758.13	5,810.18	(52.05)	-1%
Total Liabilities	2,218.46	2,454.68	(236.22)	-10%
Total Equity	3,539.67	3,355.50	184.17	5%

Total revenues decreased by ₱421.97 million or 56% for the three-month period, from ₱749.00 million in the first quarter of 2017 to ₱327.03 million for the comparable period in 2018. The significant decrease in revenues is mainly attributed to the drop in revenues of the mobile consumer services segment. The decrease in mobile consumer services segment was due to two (2) factors: the continuous drop in AOC's revenues and Globe's implementation of new rules requiring VAS providers to migrate to a new system that will have stricter opt-in rules for mobile subscriptions. AOC is implementing a recovery plan to improve its revenue mix and it has fortified its management with a new chief revenue officer to grow the business in new industries and territories, however, the immediate effects have not yet been realized for the first quarter of 2018. For Globe, a campaign for the re opt-in of the subscriber base will have to be done. In addition, Xurpas' platform initiatives in this business segment will be ready for full deployment in 2018. The net income of the Group for the three-month period ended March 31, 2018, decreased by 175% (from ₱103.24 million in the first quarter of 2017 to a net loss of ₱77.93 million in the same period of 2018). Total comprehensive income over the same period decreased by 164% from ₱111.11 million as at March 31, 2017 to a net comprehensive loss of ₱71.52 million as at March 31, 2018. Group revenues were driven by enterprise services, comprising 54% of the total revenues.

The blended cost of services (aggregating the subsidiaries' costs) decreased by 50% from ₱497.36 million for the three-month period ended March 31, 2017 to ₱247.03 million for the comparable period in 2018, consistent with the reduction in revenues. Cost of goods sold attributable to other services was ₱20.32 million for the three-month period ended March 31, 2018 compared to ₱8.00 million in the same period in 2016, an increase of 154% or ₱12.32 million, in line with the growth in revenues from Other Services. Gross profit margins on total revenues, for the period ended December 31, 2017 was at 18%, a decrease from the same period last year at 33%. Gross profit decreased by 76% from ₱243.64 million for the first quarter of 2017 to ₱59.67 million for the same period in 2018.

General and administrative expenses increased by 31%, from ₱102.04 million for the first quarter of 2017 to ₱134.03 million for the same period in 2018. Overall, the increase was mainly due to the costs related to the Group's expansion: (i) absorption of operating expenses of acquired subsidiaries, and (ii) higher level of salaries and wages, rent, and utilities, due to increased manpower as a result of organizational build-up of the parent company and acquired subsidiaries. Included in the general and administrative expenses were increase in non-

cash expenses such as depreciation and amortization related to capitalization costs, as well as non-cash interest expenses related to the recognition of liability for a written put option.

The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱10.82 million for the three-month period ended March 31, 2018. Benefit from taxes during the first three months of 2018 was ₱22.65 million or 193% lower as compared to provision for income tax recognized in 2017 amounting to ₱24.34 million. Overall, the net income for the Group decreased from ₱103.24 million for the first three months of 2017 to a net loss of ₱77.93 million over the same period in 2018; a decrease of 175%.

Consolidated total assets as of March 31, 2018 amounted to ₱5,758.13 million, a decrease of 1% from ₱5,810.18 million as of December 31, 2017. Consolidated total liabilities decreased by 10% from ₱2,454.68 million as of December 31, 2017 to ₱2,218.46 million in March 31, 2018, due mainly to the decrease in contingent liability. Consolidated total equity increased by 5% over the same period, from ₱3,355.50 million to ₱3,539.67 million. This was a result of the new issuance of common shares.

Segment Financial Performance

As of March 31, 2018 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	146.23	183.89	1.00	(30.38)	300.74
Revenue from sale of goods	-	-	26.29	-	26.29
Total Service Revenues	146.23	183.89	27.29	(30.38)	327.03
Operating expenses	170.83	202.66	51.73	(23.84)	401.39
Equity in net loss of associates	-	-	-	10.82	10.82
Other charges (income) - net	13.98	0.56	0.87	-	15.41
Total Expenses	184.81	203.22	52.60	(13.02)	427.62
Operating Loss	(38.58)	(19.33)	(25.31)	(17.36)	(100.59)
Benefit from income tax	9.69	3.47	7.49	2.00	22.65
Net Loss	(28.89)	(15.86)	(17.82)	(15.36)	(77.93)

As of March 31, 2018, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱146.23 million, ₱38.58 million and ₱28.89 million, respectively. These translated to 26% operating loss margin and 20% net loss margin. Enterprise services had an operating loss of ₱19.33 million and net loss of ₱15.86 million (net loss margin of 9%) from revenues of ₱183.89 million. The other services segment still hasn't yielded a positive contribution to the Group.

Profitability

Revenues

The consolidated service revenues of the Group for the three-month period ended March 31, 2018 amounted to ₱327.03 million, a decrease of 56% from ₱749.00 million the same period of the previous year.

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

Segment	Description	Subsidiaries
Mobile consumer services	Revenues ultimately derived from providing mobile consumer services via the Telcos, as well as mobile marketing and advertising solutions integrated in mobile casual games and platforms	<ul style="list-style-type: none"> • Xurpas Parent Company • Xeleb Technologies • Yondu • Art of Click

Enterprise services	Revenues derived from the provision of mobile platform solutions to corporate and government clients, information technology (IT) staff augmentation and consultancy services, various enterprise solutions-based services to Telcos and other companies for network, platform and applications development	<ul style="list-style-type: none"> • Xeleb Technologies (formerly Fluxion) • Seer • Yondu • Xurpas Enterprise
Other services	Revenues derived from services related to the proprietary platform called “Flex Benefits System” and “Ace” (formerly “Kudos”) which allows employees to convert their employee benefits to other benefits which includes sale of goods	<ul style="list-style-type: none"> • Storm Technologies

In PhP Millions	For the 3 months ended March 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Enterprise services	177.46	54%	160.31	21%	17.15	11%
Mobile consumer services	122.34	37%	578.37	77%	(456.03)	-79%
Other services	27.22	8%	10.32	1%	16.90	164%
<i>Total Revenues</i>	327.03	100%	749.00	100%	(421.97)	-56%

Revenues from enterprise services (which accounts for 54% of total revenues) increased by 11% in March 31, 2018, to ₱177.46 million from ₱160.31 million in March 31, 2017. On the other hand, revenues from the mobile consumer services segment for the three-month period ended March 31, 2018 amounted to ₱122.34 million, a decrease of 79% from the previous year’s same period level of ₱578.37 million. This segment accounts for 37% of the total revenues. Other services booked revenues of ₱27.22 million in the first three months of 2018, higher by 164% from the previous level at ₱10.32 million over the same period last year. The increase in the sales of Storm was attributed to organic growth in its client base and active platform users.

Expenses

In PhP Millions	For the 3 months ended March 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Expenses						
Cost of Services	247.03	62%	497.36	82%	(250.33)	-50%
Cost of Goods Sold	20.32	5%	8.00	1%	12.32	154%
General and Administrative Expenses	134.03	33%	102.04	17%	31.99	31%
<i>Total Expenses</i>	401.39	100%	607.40	100%	(206.01)	-34%

The Group’s consolidated expenses during the three-month period ended March 31, 2018 amounted to ₱401.39 million, a 34% decrease from the same period of the previous year at ₱607.40 million. For the first three months of 2018, cost of services accounted for the bulk of expenses, totaling ₱247.03 million or 62% of the Group’s consolidated expenses. For the same period in 2017, cost of services amounted to ₱497.36 million or 82% of overall expenses of ₱607.40 million.

Cost of Services

In PhP Millions	For the 3 months ended March 31					
	2018		2017		Amount Change	% Increase
	Amount	%	Amount	%		
Cost of Services						
Salaries, wages and employee benefits	153.17	62%	149.15	30%	4.01	3%
Outsourced services	35.62	14%	267.53	54%	(231.91)	-87%
Royalty fees	19.00	8%	18.40	4%	0.60	3%
Others	39.25	16%	62.28	13%	(23.03)	-37%
<i>Total Expenses</i>	247.03	100%	497.36	100%	(250.33)	-50%

Cost of services totaling ₱247.03 million as of March 31, 2018, was mainly driven by expenses relating to (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Royalty fees, which accounted for 62%, 14%, and 8%, respectively. These costs were directly borne from rendering mobile consumer services, enterprise services, and other services to the Group's clients for the first three months of 2018. Of the total cost of services for the period, more than half is attributed to Art of Click and Yondu.

Cost of Goods Sold

For three-month period ended March 31, 2018, cost of goods sold took up 5% of the Group's consolidated expenses, amounting to ₱20.32 million. This figure was an increase of 154% from its level at ₱8.00 million in March 31, 2017. The increase in cost of goods sold was directly attributable to the increase in revenues of Storm Technologies. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold.

General and Administrative Expenses

In PhP Millions	For the 3 months ended March 31					
	2018		2017		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	59.69	45%	37.20	36%	22.49	60%
Taxes and licenses	12.21	9%	6.05	6%	6.16	102%
Outsourced services	10.62	8%	9.48	9%	1.14	12%
Rent	10.35	8%	7.83	8%	2.52	32%
Depreciation and amortization	7.26	5%	3.95	4%	3.31	84%
Others	33.90	25%	37.53	37%	(3.63)	-10%
<i>Total Expenses</i>	134.03	100%	102.04	100%	31.99	31%

General and administrative expenses relating to the Group's operations, for the first three months of 2018 amounted to ₱134.03 million, higher by 31% compared to previous year's same period level of ₱102.04 million. Salaries, wages, and employee benefits was ₱59.69 million or 45% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱37.20 million for the same period in 2017. The next biggest cost component in March 31, 2018 was taxes and licenses amounting to ₱12.21 million or 9% of total GAEX.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the three-month period ended March 31, 2018, amounted to ₱10.82 million; 17% lower than the ₱13.03 million net loss for the comparable period.

Other Charges (Income) – net

For the first three months of 2018, the Group recognized other net charges amounting to ₱15.41 million. This account mainly pertains to foreign exchange gains and losses, interest expense and bank charges.

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

In PhP Millions	For the 3 months ended March 31			
	2018	2017	Amount Change	% Increase
Income (loss) before tax	(100.59)	127.58	(228.17)	-179%
Depreciation and amortization	15.75	12.01	3.74	31%
Interest expense	5.54	0.68	4.85	713%
EBITDA	(79.30)	140.27	(219.58)	-157%

The Group's EBITDA decreased by 157% in March 31, 2018 to a negative EBITDA of ₱79.30 million from ₱140.27 million the same period of the previous year. Depreciation and amortization of property and office equipment and intangible assets amounted to ₱15.75 million as at March 31, 2018 from ₱12.01 million as at March 31, 2017. Interest expense increased by 713% from ₱0.68 million as of March 31, 2017 to ₱5.54 million for the same period in 2018.

Income (Loss) before Income Tax

The Group's net loss before taxes for the three-month period ended March 31, 2018 was ₱100.59 million. The net income (loss) before taxes for the Group declined by 179% or ₱228.17 million from the same period ended March 31, 2017, which posted a figure of ₱127.58 million.

Provision for (Benefit from) Income Tax

Benefit from income tax during the three-month period ended March 31, 2018 amounted to ₱22.65 million, compared to the same period in 2017, where provision for income tax was ₱24.34 million; a 193% decrease.

Net Income (Loss)

The Group posted a consolidated net loss of ₱77.93 million for the three-month period ended March 31, 2018, a decrease of 175% from the previous year's same period at ₱103.24 million.

Total Comprehensive Income (Loss)

As of March 31, 2018, the Group's total comprehensive loss amounted to ₱71.51 million, a decrease of 164% compared to total comprehensive income of ₱111.11 million as at March 31, 2017.

Financial Position

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱253.85 million for the three-month period ended March 31, 2018, a net increase of 18% or ₱38.59 million from consolidated cash of ₱215.25 million as at December 31, 2017.

Accounts and Other Receivables

The Group's consolidated accounts and other receivables amounted to ₱720.64 million and ₱845.67 million as at March 31, 2018 and December 31, 2017, respectively, representing a decrease of ₱125.03 million. In March 31, 2018, trade receivables were valued at ₱802.36 million, whereby Yondu and Art of Click account for ₱477.87 million (60% of the total) and ₱279.03 million (35% of the total), respectively.

Available for Sale Financial Assets

As of March 31, 2018, the Group's available for sale financial assets amounted to ₱159.05 million, which remained unchanged from its previous level on December 31, 2017. These are investments in Pico Candy Pte. Ltd. (₱3.60 million), MatchMe Pte. Ltd. (₱52.50 million), Altitude Games Pte. Ltd. (₱28.86 million), Einsights Pte. Ltd. (₱23.48 million), Social Light Inc. (₱6.00 million), Club Punta Fuego (₱0.38 million), and Zowdow, Inc. (₱44.24 million).

Other Current Assets

The Group's consolidated other current assets totaled ₱83.33 million as of March 31, 2018, an increase of ₱25.39 million or 44% from its previous level on December 31, 2017 at ₱57.94 million. Prepaid expenses and creditable withholding taxes comprised majority of other current assets.

Investment in Associates

As of March 31, 2018, the Group's consolidated investment in associates amounted to ₱504.85 million, a 2% decrease from its figure of ₱515.66 million during December 31, 2017. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱26.41 million), MatchMe (₱48.11 million), SDI (₱10.44 million), and Micro Benefits Limited (₱419.88 million).

Property and Equipment

The Group's consolidated property and equipment was ₱72.28 million in March 31, 2018 vis-à-vis ₱76.15 million in December 31, 2017, or a decrease of 5%. This was the net result of adding ₱3.73 million worth of said assets and the depreciation expense amounting to ₱7.59 million for the three-month period ended March 31, 2018. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures.

Intangible Assets

Intangible assets of ₱3,765.73 million as at March 31, 2018 were recognized in relation to the Group's acquisitions and investments. The amortized amount was ₱8.15 million or 0.22% of the December 31, 2017 figure at ₱3,773.88 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of March 31, 2018, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's non-contractual and contractual agreements with Globe Telecom, its major customer which are expected to generate revenues for the Group in subsequent periods. As of March 31, 2018, customer relationship is valued at ₱1,077.81 million.
- Developed software pertains to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment. As at March 31, 2018, developed software net book value is at ₱132.65 million. Amortization of developed software for the three-month period ended March 31, 2018 amounted to ₱7.53 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of March 31, 2018, leasehold rights net book value is at ₱10.65 million. Amortization of leasehold rights for the three-month period ended March 31, 2018 amounted to ₱0.62 million.

Pension Asset

The Group's recorded pension asset is at ₱0.31 million in March 31, 2018, which was unchanged from its levels in December 31, 2017.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱147.32 million as at March 31, 2018, higher by 28% or ₱31.79 million vis-à-vis its December 31, 2017 level at ₱115.53 million.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱50.77 million as of March 31, 2018. This figure is 0.07% higher than the value posted as of December 31, 2017 at ₱50.74 million. These are primarily rental and other deposits amounting to ₱23.42 million and ₱25.83 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱456.74 million as at March 31, 2018 was a 7% or ₱36.37 million decrease from its December 31, 2017 figure of ₱493.11 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱214.37 million (₱105.87 million accounted for by Art of Click and ₱85.83 million by Yondu), payable to related parties at ₱97.97 million (from Xurpas, as advances from stockholders), deferred output VAT at ₱41.61 million, accrued expenses at ₱43.18 million (₱39.74 million from Yondu), taxes payable at ₱35.09 million, and other payables at ₱24.52 million

Loans Payable

The Group recorded ₱417.56 million in current loans in March 31, 2018 and ₱377.42 million in December 31, 2017. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at March 31, 2018 amounted to ₱17.55 million, an increase of 74% from the December 31, 2017 figure of ₱10.08 million.

Liability for Written Put Option

Based on PAS 32, *Financial Instruments: Presentation*, "...a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to ₱864.71 million, unchanged as of March 31, 2018 and December 31, 2017.

Payable to Former Shareholders of a Subsidiary

The Group recorded nil in payable to former shareholders of a subsidiary as at March 31, 2018 and ₱244.43 million as at December 31, 2017.

Other Current Liabilities

The Group's other current liabilities amounted to ₱76.14 million in March 31, 2018 compared to ₱77.17 million in 2017, a decrease of 1%.

Finance Lease- net of current portion

Seer entered into a lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.83% to 1.12%. Seer's finance lease, net of current portion, is ₱0.61 million in March 31, 2018 and December 31, 2017.

Deferred Tax Liability - net

As of March 31, 2018, the deferred tax liability (net) was at ₱353.86 million, a decrease of 1% or ₱2.00 million from ₱355.86 million as of December 31, 2017. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

The accrued pension of the Group is at ₱31.30 million in March 31, 2018, which was unchanged from its levels in December 31, 2017.

Equity

Total Equity

The Group's total equity as of March 31, 2018 was at ₱3,539.67 million, a 5% increase from its December 31, 2017 level at ₱3,355.50 million. The net increase in total equity was a result of the issuance of common shares. Retained earnings decreased by ₱75.63 million or 23% from ₱322.73 million as at December 31, 2017 to ₱247.10 million in March 31, 2018.

Liquidity and Capital Resources

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

Cash Flows

In PhP Millions	For the 3 months ended March 31	
	2018	2017
	Amount	Amount
Net cash provided by (used in) Operating Activities	(15.01)	257.90
Net cash provided by (used in) Investing Activities	(3.77)	0.14
Net cash provided by (used in) Financing Activities	40.14	(14.51)
Effect of foreign currency exchange changes in cash	17.23	8.46
Net increase in cash	38.59	251.99
Cash at beginning of period	215.25	428.52
Cash at end of period	253.85	680.51

Cash Flows Used in Operating Activities

For the first three months of 2018, operating loss of ₱66.58 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱7.05 million net cash used in operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱15.01 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for the first three months of 2018 was ₱3.77 million compared to ₱0.14 million provided in the same period of 2017. The net cash used in investing activities was mainly attributable to the acquisitions of property and equipment.

Cash Flows Provided by Financing Activities

The Group's consolidated net cash flow provided by financing activities for the three-month period ended March 31, 2018 was ₱40.14 million; compared to ₱14.51 million used as of March 31, 2017. The cash flow provided by financing activities were mainly from the issuance of common shares.

Capital Expenditure

The Group's capital expenditures for the three-month period ended March 31, 2018 and the year ended December 31, 2017 amounted to ₱3.73 million and ₱27.50 million, respectively.

Key Financial Data In PhP Millions	March 31, 2018 Additions	December 31, 2017 Additions
Office Equipment	0.40	3.08
IT Equipment	2.21	18.03
Furniture and Fixtures	0.45	0.95
Leasehold Improvements	0.67	4.33
Leased Asset	-	1.11
Office Equipment	3.73	27.50

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at nil and ₱244.43 million as at March 31, 2018 and December 31, 2017, respectively. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized.

Key Performance Indicators

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

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

In Percentage	For the three-month periods ended March 31		For the years ended December 31	
	2018	2017	2017	2016
Liquidity Ratios				
Current Ratio	58%	126%	54%	105%
Quick Ratio	53%	120%	51%	102%
Asset-to-Equity Ratio	213%	196%	231%	219%
Profitability Ratios				
Net Income Margin	-23%	13%	2%	11%
Gross Margin	18%	33%	31%	41%
Operating Margin	-24%	19%	12%	24%
Return on Total Assets	-1%	2%	1%	7%
Return on Equity	-2%	3%	1%	14%
Debt Ratios				
Debt-to-Equity Ratio	0.82x	0.69x	0.97x	0.91x
Interest Coverage Ratio	-15.33x	18.84x	2.81x	11.84x

Current Ratios

Current Ratio and Quick Ratio in the three-month period ended March 31, 2018 were 58% and 53%, respectively, an increase from their respective 54% and 51% figures during the full year of 2017. The increase in both ratios was primarily from the significant decrease in current liabilities and minimal decrease of current assets of the Group for that period.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 231% in December 31, 2017 to 213% in March 31, 2018 resulted from the increase in equity due to additional issuance of common shares and decrease in total assets, particularly from accounts receivables.

Profitability Ratios

Profitability margins decreased from December 31, 2017, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (18%), Net Income Margin (-23%), Operating Margin (-24%), Return on Total Assets (-1%) and Return on Equity (-2%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, expansion of operations offshore, and salaries and wages paid to the Group's new employees for its organizational build-up program.

Debt Ratios

Debt to Equity in March 31, 2018 was at 0.82x compared to 0.97x as at December 31, 2017. The decrease in the gearing ratio was attributed to the higher total equity value in March 31, 2018 compared to the previous year. Interest coverage ratio in March 31, 2018 was at -15.33x compared to 2.81x in December 31, 2017.

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

Current Ratios

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

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

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines and negotiate for longer payment terms for its payables.
- ii. Events that will trigger Direct or Contingent Financial Obligation. There are no events that will trigger direct or contingent financial obligations that are material to the Group, including and default or acceleration of an obligation.
- iii. Material Off-balance sheet Transactions, Arrangements, Obligations. Likewise, there were no materials off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the group with unconsolidated entities or other persons created during the reporting period.
- iv. Material Commitments for Capital Expenditure. There are no material commitments for capital expenditures.
- v. Material Events/ Uncertainties. There are no known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are confined to its mobile consumer and other services segments.

Full Year 2017 compared with 2016

Financial Summary

Key Financial Data In PhP Millions	For the 12 months ended December 31					
	2017		2016 (As restated)		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,438.12	68%	1,239.92	64%	198.20	16%
Enterprise services	566.01	27%	653.14	34%	(87.13)	-13%
Other services	99.44	5%	54.07	3%	45.36	84%
Total Revenues	2,103.57	100%	1,947.14	100%	156.43	8%
Cost of Services	1,373.41	65%	1,101.90	57%	271.52	25%
Cost of Goods Sold	81.01	4%	41.82	2%	39.19	94%
Gross Profit	649.15	31%	803.42	41%	(154.27)	-19%
General and Administrative Expenses	572.62	27%	354.73	18%	217.89	61%
Equity in Net Loss of Associate	36.72	2%	33.90	2%	2.82	8%
Other charges (income) - net	(82.23)	-4%	35.69	2%	(117.92)	-330%
Income Before Income Tax	122.04	6%	379.10	19%	(257.06)	-68%
Provision for Income Tax	19.47	1%	114.27	6%	(94.80)	-83%
Net Income	102.57	5%	264.84	14%	(162.27)	-61%
Other Comprehensive Income (Loss)	21.15	1%	17.48	1%	3.67	21%
Total Comprehensive Income	123.72	6%	282.32	14%	(158.60)	-56%

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

Total revenues increased by ₱156.43 million or 8%, from ₱1,947.14 million in 2016 to ₱2,103.57 million in 2017. The net income of the Group for the twelve-month period ended December 31, 2017, decreased by 61% (from ₱264.84 million (as restated) in the year ended 2016 to ₱102.57 million in 2017). Total comprehensive income over the same period decreased by 56% from ₱282.32 million as at December 31, 2016 to ₱123.72 million as at December 31, 2017. Group revenues were still mainly driven by mobile consumer services, comprising 68% of the total revenues.

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

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

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

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

Segment Financial Performance

As of December 31, 2017 In PhP Millions	Mobile Consumer Services	Enterprise Services	Other Services	Intersegment Adjustments	Consolidated
Revenue from services	1,599.60	721.36	5.67	(317.08)	2,009.55
Revenue from sale of goods	-	-	94.02	-	94.02
Total Service Revenues	1,599.60	721.36	99.69	(317.08)	2,103.57
Operating expenses	1,424.34	721.94	169.43	(288.68)	2,027.03
Equity in net loss of associates	-	-	-	36.72	36.72
Other charges (income) - net	(207.18)	(5.09)	1.31	128.73	(82.23)
Total Expenses	1,217.16	716.85	170.74	(123.23)	1,981.52
Operating profit	382.43	4.51	(71.05)	(193.85)	122.05
Provision for income tax	64.63	27.49	(7.22)	(65.43)	19.47
Net Income (Loss)	317.80	(22.98)	(63.82)	(128.42)	102.57

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

Profitability

Revenues

The consolidated service revenues of the Group for the period ended December 31, 2017 amounted to ₱2,103.57 million, an increase of 8% from ₱1,947.14 million the same period of the previous year.

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

Segment	Description	Subsidiaries
Mobile consumer services	Revenues ultimately derived from providing mobile consumer services via the Telcos, as well as mobile marketing and advertising solutions integrated in mobile casual games and platforms	<ul style="list-style-type: none"> • Xurpas Parent Company • Xeleb Technologies • Yondu • AOC
Enterprise services	Revenues derived from the provision of mobile platform solutions to corporate and government clients, information	<ul style="list-style-type: none"> • Xeleb Technologies • Seer • Yondu

	technology (IT) staff augmentation and consultancy services, various enterprise solutions-based services to Telcos and other companies for network, platform and applications development	<ul style="list-style-type: none"> • Xurpas Enterprise
Other services	Revenues derived from services related to the proprietary platform called “Flex Benefits System” and “Ace” (formerly “Storm Kudos”) which allows employees to convert their employee benefits to other benefits which includes sale of goods	<ul style="list-style-type: none"> • Storm

In PhP Millions	For the 12 months ended December 31					
	2017		2016		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,438.12	68%	1,239.92	64%	198.20	16%
Enterprise services	566.01	27%	653.14	34%	(87.13)	-13%
Other services	99.44	5%	54.07	3%	45.36	84%
<i>Total Revenues</i>	2,103.57	100%	1,947.14	100%	156.43	8%

Revenues from the mobile consumer services segment for the twelve-month period ended December 31, 2017 amounted to ₱1,438.12 million, an increase of 16% from the previous year’s same period level of ₱1,239.92 million. The increase was attributed to the growth from the mobile games business and the accretive value of the acquisition of AOC in 2017. This segment accounts for 68% of the total revenues. On the other hand, revenues from enterprise services (which accounts for 27% of total revenues) decreased by 13% in December 31, 2017, to ₱566.01 million from ₱653.14 million in December 31, 2016. Other services booked revenues of ₱99.44 million in the first twelve months of 2017, higher by 84% from the previous level at ₱54.07 million over the same period last year. The increase in the sales of Storm was attributed to the organic growth of its client base and active platform users.

Expenses

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

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

Cost of Services

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

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

Cost of Goods Sold

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

General and Administrative Expenses

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

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

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the period ended December 31, 2017, amounted to ₱36.72 million. These companies are still in their testing phase or are in the process of ramping up or commercializing their operations. Despite the aggregate net loss of associates for 2017, the Group is now seeing profits from the associates companies - PT Sembilan Digital Investama (SDI), and MatchMe. Altitude Games and Micro Benefits are the associates that posted a net loss for

2017. Altitude Games business is expected to pick up, as it closed a partnership with a big US mobile games developer, to co-develop and introduce games to the US market. For Micro Benefits, it had as its main focus in the first half, product and user experience upgrade. This paved the way to landing more clients in 2017. Micro Benefits added eight additional brands, representing more than 100 factories in at least 20 factory family groups. It has expanded out of China to Vietnam, India, Bangladesh, and Guatemala.

Other Income – net

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

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

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

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

Income before Income Tax

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

Provision for Income Tax

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

Net Income

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

Total Comprehensive Income

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

Financial Position

Assets

Cash

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

Financial Assets at Fair Value through Profit or Loss

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

Accounts Receivable

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

Available for Sale Financial Assets

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

Other Current Assets

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

Investment in Associates

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

Property and Equipment

The Group's consolidated property and equipment was ₱76.15 million in December 31, 2017 vis-à-vis ₱80.53 million in December 31, 2016, or a decrease of 5%. This was the net result of adding ₱27.50 million worth of said assets and the depreciation expense amounting to ₱31.59 million for the twelve-

month period ended December 31, 2017. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures.

Intangible Assets

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

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As at December 31, 2017, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2017, customer relationship is valued at ₱1,077.81 million.
- Developed software pertains to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment. As at December 31, 2017, developed software net book value is at ₱140.18 million. Amortization of developed software for the twelve-month period ended December 31, 2017 amounted to ₱32.90 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2017, leasehold rights net book value is at ₱11.27 million. Amortization of leasehold rights for the twelve-month period ended December 31, 2017 amounted to ₱2.48 million.

Pension Asset

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

Deferred Tax Assets – Net

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

Other Noncurrent Assets

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

Liabilities

Accounts and Other Payables

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

The Group's accounts and other payables consisted mainly of trade payables at ₱218.58 million (₱104.55 million from AOC and ₱81.43 million from Yondu), payable to related parties at ₱102.53 million (₱97.15 million from Xurpas, as advances from stockholders), deferred output VAT at ₱62.55

million (P56.90 million from Yondu), accrued expenses at P60.60 million (P56.99 million from Yondu), taxes payable at P29.00 million, and other payables at P19.84 million

Loans Payable

The Group recorded P377.42 million in current loans in December 31, 2017 and P3.00 million in December 31, 2016. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at December 31, 2017 amounted to P10.08 million, a decrease of 84% from the December 31, 2016 figure of P64.44 million.

Liability for Written Put Option

Based on PAS 32, *Financial Instruments: Presentation*, "...a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to P864.71 million, unchanged as of December 31, 2017 and December 31, 2016.

Payable to Former Shareholders of a Subsidiary

The Group recorded P244.43 million in Payable to former shareholders of a subsidiary as at December 31, 2017 and P314.13 million as at December 31, 2016, a decrease of P69.70 million or 22%.

Other Current Liabilities

The Group's other current liabilities amounted to P77.17 million in December 31, 2017 compared to P127.72 million in 2016, a decrease of 40%.

Loans Payable – non-current portion

The Group recorded nil in non-current loans in December 31, 2017 and P14.00 million in December 31, 2016.

Finance Lease- net of current portion

Seer entered into a lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.83% to 1.12%. Seer's finance lease net of current portion is P0.61 million in December 31, 2017 and P1.16 million December 31, 2016.

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

The Group recorded nil and P491.29 million in payable to former shareholders of a subsidiary (net of current portion) as of December 31, 2017 and December 31, 2016, respectively.

Deferred Tax Liability

As of December 31, 2017, the deferred tax liability (net) was at P355.86 million, a decrease of 2% or P7.99 million from P363.85 million as of December 31, 2016. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

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

Equity

Total Equity

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

Liquidity and Capital Resources

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

Cash Flows

In PhP	For the 12 months ended December 31	
	2017	2016
	Amount	Amount
Net cash provided by Operating Activities	248,521,283	17,890,169
Net cash used in Investing Activities	(169,890,399)	(887,031,702)
Net cash provided by (used in) Financing Activities	(274,972,523)	1,009,409,733
Effect of foreign currency exchange changes in cash	(16,921,504)	(17,635,549)
Net increase (decrease) in cash	(213,263,143)	122,632,651
Cash at beginning of period	428,517,653	305,885,002
Cash at end of period	215,254,510	428,517,653

Cash Flows Provided by Operating Activities

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

Cash Flows Used in Investing Activities

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

Cash Flows Provided by (Used in) Financing Activities

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

Capital Expenditure

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

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

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at ₱244.43 million (current portion) as at December 31, 2017 and ₱314.13 million (current portion) and ₱491.29 million (non-current portion) for December 31, 2016. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized.

Key Performance Indicators

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

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

	For the years ended December 31		
In Percentage	2017	2016	2015
Liquidity Ratios			
Current Ratio	54%	105%	84%
Quick Ratio	51%	102%	81%
Asset-to-Equity Ratio	231%	219%	428%
Profitability Ratios			
Net Income Margin	2%	11%	25%
Gross Margin	31%	41%	57%
Operating Margin	12%	24%	39%
Return on Total Assets	1%	7%	9%
Return on Equity	1%	14%	19%
Debt Ratios			
Debt-to-Equity Ratio	0.97x	0.91x	2.31x
Interest Coverage Ratio	2.81x	11.84x	60.00x

Current Ratios

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

Asset-to-Equity Ratio

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

Profitability Ratios

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

Debt Ratios

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

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

Current Ratios

1. Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

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

Other Disclosures:

- i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines and negotiate for longer payment terms for its payables.
- ii. Events that will trigger Direct or Contingent Financial Obligation. There are no events that will trigger direct or contingent financial obligations that are material to the Group, including and default or acceleration of an obligation.
- iii. Material Off-balance sheet Transactions, Arrangements, Obligations. Likewise, there were no materials off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the group with unconsolidated entities or other persons created during the reporting period.
- iv. Material Commitments for Capital Expenditure. There are no material commitments for capital expenditures.
- v. Material Events/ Uncertainties. There are no known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.
- vi. Results of Operations. There were no significant elements of income or loss that did not arise from continuing operations.
- vii. Seasonality. The effects of seasonality or cyclicity on the operations of the Group's business are confined to its mobile consumer and other services segment.

Full Year 2016 compared with 2015

Financial Summary

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

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

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

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

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

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

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

The Group's total cost of services increased by 250% from ₱314.69 million for year ended 2015 to ₱1,101.90 million for the comparable period in 2016. Cost of goods sold attributable to other services was ₱41.82 million for year ended December 31, 2016 compared to ₱69.81 million in 2015, a decrease of

40% or ₱27.99 million. Gross profit margins on total revenues, for the twelve-month period ended December 31, 2016 was at 41%, a decrease from the same period last year at 57%. However, in absolute amount, gross profit increased by 56% from ₱513.87 million for the year ended 2015 to ₱803.42million for the same period in the year ended 2016.

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

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

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

Segment Financial Performance

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

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

Profitability

Revenues

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

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

In PhP Millions	For the 12 months ended December 31					
	2016 (As restated)		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	1,239.92	64%	576.05	64%	663.87	115%
Enterprise services	653.14	34%	243.46	27%	409.69	168%
Other services	54.07	3%	78.86	9%	(24.79)	-31%
<i>Total Revenues</i>	1,947.14	100%	898.37	100%	1,048.77	117%

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

Expenses

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

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

Cost of Services

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

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

Cost of Goods Sold

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

General and Administrative Expenses

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

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

Equity in Net Loss of Associates

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

Other charges - net

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

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

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

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

Income before Income Tax

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

Provision for Income Tax

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

Net Income

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

Financial Position

Assets

Cash and Cash Equivalents

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

Accounts Receivable

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

Financial Assets at Fair Value through Profit or Loss

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

Other Current Assets

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

Available for Sale Financial Assets

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

Investment in Associates

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

Property and Equipment

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

Intangible Assets

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

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of December 31, 2016, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's non-contractual and contractual agreements with Globe Telecom, Inc., its major customer which are expected to generate revenues for the Group in subsequent periods. As of December 31, 2016, customer relationship is valued at ₱1,077.81 million.
- Developed software pertains to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment. As of December 31, 2016, developed software net book value is at ₱162.51 million. Amortization of developed software for the year ended December 31, 2016 amounted to ₱19.87 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of December 31, 2016, leasehold rights net book value is at ₱13.75 million. Amortization of Leasehold rights for the year ended December 31, 2016 amounted to ₱2.48 million.

Pension Asset

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

Deferred Tax Assets – Net

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

Other Noncurrent Assets

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

Liabilities

Accounts and Other Payables

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

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

Loans Payable – current portion

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

Income Tax Payable

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

Liability for Written Put Option

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

Payable to former shareholders of a subsidiary

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

Other Current Liabilities

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

Loans Payable – non-current portion

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

Deferred Tax Liability

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

Finance Lease- net of current portion

The Group entered into a lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.83% to 1.12%. The Group's finance lease net of current portion is ₱1.16 million in December 31, 2016 compared to nil in 2015.

Pension Liability

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

Equity

Total Equity

The Group's total equity As of December 31, 2016 was at ₱3,789.50 million, a 142% increase from its December 31, 2015 level at ₱1,563.75 million. On April 29, 2016, the Parent Company issued and subscribed 77.70 million shares with par value of ₱0.10 for a total consideration of ₱1,243.20 million or ₱16.00 per share. The excess of subscription price over paid-up capital was recognized as additional paid-in capital. The net increase in total equity was a result of additional paid-in capital of ₱2,123.40 million, increase of ₱129.01 million in retained earnings, and increase of ₱14.76 million in capital stock as of December 31, 2016. Likewise, As of December 31, 2016, equity reserve of ₱892.22 million was recorded pertaining to the liability for written option. On November 14, 2016, the Parent Company commenced its share buyback program following its Board approval for the allotment of ₱170.00 million on November 9, 2016. As at December 31, 2016, treasury stocks acquired totaled to 8,532,900 shares which amounted to ₱71.51 million. Non-controlling interests were at ₱830.17 million in December 31, 2016, an 8% increase from its figure in December 31, 2015 at ₱771.52 million.

Liquidity and Capital Resources

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

Cash Flows

In ₱	For the 12 months ended December 31
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Key Financial Data	2016	2015
Net cash provided by (used in) Operating Activities	17,890,169	(7,933,530)
Net cash used in Investing Activities	(887,031,702)	(559,675,619)
Net cash provided by (used in) Financing Activities	1,009,409,733	(84,178,026)
Effect of foreign currency exchange rate changes	(17,635,549)	(245,051)
Net increase in cash	122,632,651	(652,032,226)
Cash at beginning of period	305,885,002	957,917,228
Cash at end of period	428,517,653	305,885,002

Cash Flows Provided by Operating Activities

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

Cash Flows Used in Investing Activities

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

Cash Flows Provided by (Used in) Financing Activities

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

Capital Expenditure

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

Key Financial Data (In ₱ million)	December 31, 2016 Additions		December 31, 2015 Additions	
	Business Combination	Regular	Business Combination	Regular
Office Equipment	0.06	2.34	0.53	1.63
IT Equipment	0.51	15.06	16.05	6.51
Furniture and Fixtures	0.07	7.12	1.00	1.74
Leasehold Improvements	-	23.98	23.94	3.43
Leased Asset	-	1.81	2.86	-
Transportation Equipment	-	-	0.08	-
Total	0.63	50.30	44.46	13.31

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at ₱805.43 million as at December 31, 2016 and nil for the previous year. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized.

Key Performance Indicators

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

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

Current Ratios

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

Asset-to-Equity Ratio

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

Profitability Ratios

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

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

Current Ratios

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

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

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

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

IV. EXTERNAL AUDIT FEES AND SERVICES

The aggregate fees billed for each of the last two calendar years for professional services rendered by the external auditor were ₱1,056,000 and ₱880,000 for 2017 and 2016, respectively. The audit fees for 2018 are estimated to be at ₱1,161,600. Services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, tax consultancy and assistance in the preparation of annual income tax returns.

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

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

V. MARKET PRICE AND DIVIDENDS

A. Market Information

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

The following table shows the high and low prices (in PHP) of Xurpas' shares in the PSE for the year 2017, 2016 and 2015 and the 1st quarter of 2018:

	High	Low
2018		
1 st Quarter	5.93	3.10
2017		
4 th Quarter	5.94	3.10
3 rd Quarter	9.07	5.20
2 nd Quarter	10.54	7.40
1 st Quarter	10.50	7.09
2016		
4 th Quarter	15.12	7.11
3 rd Quarter	18.18	13.38
2 nd Quarter	20.00	14.80
1 st Quarter	18.90	11.40
2015		
4 th Quarter	17.24	14.10
3 rd Quarter	14.46	8.93
2 nd Quarter	11.20	8.40
1 st Quarter	12.60	9.30

The market capitalization of the Company's common shares as of end-2017, based on the closing price of ₱5.57/share, was approximately ₱10.05 billion versus ₱14.85 billion the previous year.¹

The price information of Xurpas' common shares as of the close of the latest practicable trading date, June 7, 2018, is ₱3.26.

B. Holders

There are twenty three (24) registered holders of common shares, as of May 16, 2018 (based on number of accounts registered with the Stock Transfer Agent)².

	Stockholder's Name	Number of shares	Percentage to total	Nationality
1)	PCD Nominee Corp. (Filipino) ³	1,315,420,388	67.98	Filipino
2)	PCD Nominee Corp. (Non-Filipino)	217,737,149	11.25	Others
3)	Raymond Gerard S. Racaza	174,100,010	9.00	Filipino
4)	Fernando Jude F. Garcia	174,100,010	9.00	Filipino
5)	Emmanuel Michel Jean Allix	53,298,242	2.75	
6)	Emilie Grace S. Nollado	251,889	0.01	Filipino
7)	Rogina C. Guda	6,000	0	Filipino
8)	Aquilina V. Redo	5,500	0	Filipino
9)	Dahlia C. Aspillera	2,900	0	Filipino
10)	Mercedita S. Nollado	1,060	0	Filipino
11)	Wilfredo O. Racaza	1,060	0	Filipino
12)	Joselito C. Herrera	500	0	Filipino
13)	Frederick D. Go	500	0	Filipino
14)	Dondi Ron R. Limgenco	111	0	Filipino
15)	Marietta V. Cabreza	100	0	Filipino
16)	Milagros P. Villanueva	100	0	Filipino
17)	Myra P. Villanueva	100	0	Filipino
18)	Myrna P. Villanueva	100	0	Filipino
19)	Philip &/or Elnora Turner	99	0	British-Indian
20)	Nico Jose S. Nollado	10	0	Filipino
21)	Jonathan Gerard A. Gurango	10	0	Filipino
22)	Alvin D. Lao	10	0	Filipino
23)	Owen Nathaniel S. AUITF: Li Marcus Au	3	0	Filipino
24)	Joselito T. Bautista	1	0	Filipino
	Total	1,934,925,852	100%	Filipino

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

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

³PCD Nominee Corp. (Filipino) includes shares of a) Mr. Nico Jose S. Nollado (415,765,950); b) Raymond Gerard S. Racaza (241,665,950); and c) Fernando Jude F. Garcia (241,665,950); We note that a portion of shares of Messrs. Nollado, Racaza and Garcia are not yet listed with the Exchange, but are included in PCD Nominee Corp. (Filipino). Further, PCD Nominee Corp. (Filipino) includes treasury shares.

C. Dividends and Dividend Policy

Dividend History

Information on the Company's declaration of dividends follow:

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

Dividend Policy

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

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

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

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

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

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

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

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

On October 6, 2016, Xurpas signed a Share Purchase Agreement with Emmanuel Michel Jean Allix and Wavemaker Labs Pte. Ltd. (the “Sellers”) for the acquisition of 100% shares in AOC for an aggregate consideration of ₱1.40 billion in cash and in Xurpas shares. AOC is a Singaporean start-up firm established in 2011 that specializes on mobile marketing solutions for advertisers, publishers, app developers and other operators. Its key markets include Japan, Korea, Hong Kong, Taiwan, Southeast Asia, North America and Europe.

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

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

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

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

On June 2017, amendments were made to the share purchase agreement with one of the sellers, Emmanuel Michel Jean Allix (“Allix”), which (a) resulted in the payment of US\$7.24 million or 358.50 million, (b) changed the manner of payment of the Installment Payment payable and Deferred Purchase Consideration from being partly in cash and Xurpas shares to solely in cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year.

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

On October 3, 2017, Xurpas entered into an agreement to amend the share purchase agreement with Wavemaker Labs Pte. Ltd. (“Wavemaker”), a former shareholder of AOC, which provides for (a) the adjusted purchase price, (b) the change in manner of payment for the Installment Payment and Deferred Consideration pertaining to Wavemaker from being payable in Xurpas shares to cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. To implement these amendments, there will be a placement and subscription transaction involving 67,285,706 Xurpas listed shares of existing shareholders by way of a block sale through the facilities of the PSE in 2018. Three shareholders of Xurpas sold their shares to Wavemaker, as an advance on behalf of Xurpas. The said shareholders, then subscribed to an aggregate of 67,285,706 Xurpas shares to replace the shares already advanced. Xurpas is claiming exemption from registration under Section 10.1(k) of the Securities and Regulation Code.

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

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

E. Discussion on compliance with leading practice on Corporate Governance

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

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

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

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

Plans to improve

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