COVER SHEET

SEC Registration Number

A	2	0	0	1	1	7	7	0	8	

Company Name

XURPAS INC. AND SUBSIDIARIES

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
15	2nd week of May	September 30, 2016

CONTACT PERSON INFORMATION

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

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

Contact Person's Address

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2016**

2. Commission identification number **A200117708**

3. BIR Tax Identification No **219-934-330**

4. **Xurpas Inc.**
   Exact name of issuer as specified in its charter

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

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

7F Cambridge Centre, 108 Tordesillas St., Salcedo Village, Makati City **1227**
7. Address of issuer's principal office Postal Code

   (632) 889-6467
8. Issuer's telephone number, including area code

   Not Applicable
9. Former name, former address and former fiscal year, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Shares	**1,797,700,660**

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

    Yes [✔] No [ ]

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
    Philippine Stock Exchange Common Shares 1,797,700,660

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
    Yes [✔] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [✔] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Unaudited Interim Condensed Consolidated Statements of Financial Position
As of September 30, 2016 (with Comparative Audited Consolidated Statements of Financial Position as of December 31, 2015)

Unaudited Interim Condensed Consolidated Statements of Income and Comprehensive Income
For the Nine-Month Periods Ended September 30, 2016 and 2015

Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the Nine-Month Periods Ended September 30, 2016 and 2015

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the Nine-Month Periods Ended September 30, 2016 and 2015

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Attachments:

Schedule I: Map Showing the Relationships Between and Among the Companies in the Group, Its Subsidiaries and Associate
Schedule II: Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards
Schedule III: Reconciliation of Retained Earnings Available for Dividend Declaration
Schedule IV: Financial Ratios

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

The MD&A is a discussion and analysis of the Company's financial position as of September 30, 2016 and December 31, 2015 and performance for the nine-month periods ended September 30, 2016 and 2015. The primary objective of this MD&A is to help the readers understand the dynamics of the Company's business and the key factors underlying the Company's financial results.

The MD&A as of and for the nine-month period ended September 30, 2016 should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes.

PART II--OTHER INFORMATION

There are no other information for this period not previously reported in SEC Form 17-C that needs to be reported in this section.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, on November 9, 2016.

Issuer: **XURPAS INC.**

By:

NICO JOSE S. NOLLEDO
Chairman and Chief Executive Officer

RAYMOND GERARD S. RACAZA
President and Chief Operating Officer

ALEXANDER D. CORPUZ
Chief Finance Officer and Chief Compliance Officer

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 24)	**₱499,804,325**	₱305,885,002
Accounts receivable (Notes 6, 19 and 24)	**657,417,701**	756,406,724
Financial assets at fair value through profit or loss (Notes 7 and 24)	**536,306,726**	80,317,867
Available-for-sale financial assets (Notes 8 and 24)	**70,403,123**	17,657,123
Other current assets	**67,920,894**	44,298,472
Total Current Assets	**1,831,852,769**	1,204,565,188
Noncurrent Assets		
Available-for-sale financial assets – net of current portion (Notes 8 and 24)	**67,959,956**	67,959,956
Investments in associates (Note 9)	**562,449,774**	102,809,116
Property and equipment (Note 10)	**71,360,044**	58,183,944
Intangible assets (Note 11)	**1,877,403,044**	1,888,282,481
Deferred tax assets – net	**44,054,490**	42,523,636
Other noncurrent assets	**36,683,419**	30,049,094
Total Noncurrent Assets	**2,659,910,727**	2,189,808,227
	₱4,491,763,496	₱3,394,373,415

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 12, 19 and 24)	**₱368,216,834**	₱522,744,319
Loans payable (Note 13 and 24)	**16,998,370**	13,998,370
Income tax payable	**30,011,158**	39,236,888
Deposit for future stock subscription (Note 14)	**24,615,925**	–
Liability for written put option (Notes 21 and 24)	**853,181,279**	853,181,279
Total Current Liabilities	**1,293,023,566**	1,429,160,856
Noncurrent Liabilities		
Deferred tax liabilities – net	**354,003,230**	360,587,068
Pension liabilities	**26,465,791**	40,873,938
Total Noncurrent Liabilities	**380,469,021**	401,461,006
Total Liabilities	**1,673,492,587**	1,830,621,862
Equity (Notes 8, 9, 21 and 22)		
Equity attributable to equity holders of Xurpas Inc.		
Capital stock	**179,770,066**	172,000,066
Additional paid-in capital	**2,410,325,160**	1,219,718,163
Retained earnings	**314,059,999**	250,798,331
Net unrealized loss on available-for-sale financial assets	**(210,000)**	(210,000)
Cumulative translation adjustment on investments in associates	**6,484,416**	6,484,416
Retirement benefit reserve	**(8,452,824)**	(8,064,767)
Equity reserve	**(882,914,609)**	(848,496,865)
	2,019,062,208	792,229,344
Noncontrolling interests (Note 21)	**799,208,701**	771,522,209
Total Equity	**2,818,270,909**	1,563,751,553
	₱4,491,763,496	₱3,394,373,415

See accompanying Notes to Interim Condensed Consolidated Financial Statements

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine-month period ended		For the three-month period ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	**September 30, 2016 (Unaudited)**	September 30, 2015 (Unaudited)
REVENUE				
Service income (Note 15)	**₱1,064,753,582**	₱458,502,660	**₱356,947,273**	₱185,575,323
Sale of goods	**41,882,677**	35,930,578	**19,555,147**	5,943,759
Interest income (Note 5)	**2,982,730**	8,580,639	**1,217,360**	3,484,816
Other income (Note 7)	**16,596,360**	5,635,026	**12,407,563**	1,658,329
	1,126,215,349	508,648,903	**390,127,343**	196,662,227
COST AND EXPENSES				
Cost of services (Note 16)	**548,842,837**	143,794,590	**196,184,569**	67,437,291
Cost of goods sold	**28,739,802**	30,898,724	**12,292,385**	5,088,774
General and administrative expenses (Note 17)	**259,041,198**	88,808,262	**90,065,335**	49,193,562
Equity in net loss of associates (Note 9)	**10,139,479**	6,086,636	**3,594,089**	2,104,283
	846,763,316	269,588,212	**302,136,378**	123,823,910
INCOME BEFORE INCOME TAX	**279,452,033**	239,060,691	**87,990,965**	72,838,317
PROVISION FOR INCOME TAX (Note 20)	**86,546,823**	76,679,154	**27,591,464**	26,071,209
NET INCOME	**192,905,210**	162,381,537	**60,399,501**	46,767,108
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that may be reclassified to profit or loss in subsequent periods:				
Unrealized gain (loss) on available-for-sale financial assets (Note 8)	**–**	(25,000)	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱192,905,210**	₱162,356,537	**₱60,399,501**	₱46,767,108

(Forward)

	For the nine-month period ended		For the three-month period ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	**September 30, 2016 (Unaudited)**	September 30, 2015 (Unaudited)
Net income (loss) attributable to:				
Equity holders of Xurpas Inc.	**₱149,527,509**	₱167,701,203	**₱47,619,840**	₱54,162,265
Noncontrolling interests	**43,377,701**	(5,319,666)	**12,779,661**	(7,395,157)
	₱192,905,210	₱162,381,537	**₱60,399,501**	₱46,767,108
Total comprehensive income (loss) attributable to:				
Equity holders of Xurpas Inc.	**₱149,527,509**	₱167,676,203	**₱47,619,840**	₱54,162,265
Noncontrolling interests	**43,377,701**	(5,319,666)	**12,779,661**	(7,395,157)
	₱192,905,210	₱162,356,537	**₱60,399,501**	₱46,767,108
Basic Earnings Per Share (Note 23)	**₱0.08**	₱0.10	**₱0.03**	₱0.03

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	September 30	
	2016	2015
	(Unaudited)	(Unaudited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS INC.		
Capital stock - ₱0.10 par value (Note 22)		
Authorized – 5,000,000,000 shares		
Issued and outstanding		
Balance at January 1	**₱172,000,066**	₱172,000,066
Issuance of common shares through cash subscription	**7,770,000**	–
Balance at September 30	**179,770,066**	172,000,066
Additional paid-in capital (Note 22)		
Balance at January 1	**1,219,718,163**	1,219,718,163
Issuance of common shares through cash subscription	**1,190,606,997**	–
Balance at September 30	**2,410,325,160**	1,219,718,163
Retained earnings (Note 22)		
Appropriated		
Balance at beginning and end of period	**65,819,709**	–
Unappropriated		
Balance at January 1	**184,978,622**	98,539,176
Net income	**149,527,509**	167,701,203
Cash dividend	**(86,265,841)**	(68,800,026)
Balance at September 30	**248,240,290**	197,440,353
	314,059,999	197,440,353
Net unrealized loss on available-for-sale financial asset (Note 8)		
Balance at January 1	**(210,000)**	(225,000)
Changes in fair value of available-for-sale financial assets	**–**	(25,000)
Balance at September 30	**(210,000)**	(250,000)
Cumulative translation adjustment on investments in associates (Note 9)		
Balance at beginning and end of period	**6,484,416**	–
Retirement benefit reserve		
Balance at January 1	**(8,064,767)**	(10,737,981)
Movement during the period	**(388,057)**	–
Balance at September 30	**(8,452,824)**	(10,737,981)
Equity reserve (Note 21)		
Balance at January 1	**(848,496,865)**	–
Effect of pooling of interests	**(34,417,744)**	–
Balance at September 30	**(882,914,609)**	–
	2,019,062,208	1,578,170,601

(Forward)

	September 30	
	2016	2015
	(Unaudited)	(Unaudited)
NONCONTROLLING INTERESTS		
Balance at January 1	**771,522,209**	11,263,488
Acquisition of subsidiary	**–**	14,155,584
Net income (loss)	**43,377,701**	(5,319,666)
Effect of pooling of interests	**(10,582,255)**	–
Dividends paid to noncontrolling interests	**(4,900,000)**	(6,125,000)
Actuarial losses on pension liabilities	**(208,954)**	–
Balance at September 30	**799,208,701**	13,974,406
	₽2,818,270,909	₽1,592,145,007

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱279,452,033**	₱239,060,691
Adjustments for:		
Depreciation and amortization (Notes 16 and 17)	**31,620,241**	4,453,854
Equity in net loss of associates (Note 9)	**10,139,479**	6,086,636
Interest expense (Note 17)	**1,123,634**	–
Gain on disposal of assets	**(625,270)**	–
Unrealized loss (gain) from financial assets at FVPL (Note 7)	**(1,253,931)**	424,623
Interest income (Note 5)	**(2,982,730)**	(8,580,639)
Unrealized foreign currency exchange gain (loss)	**(4,078,703)**	–
Realized gain on financial asset at FVPL (Note 7)	**(2,593,063)**	–
Operating income before changes in working capital	**310,801,690**	241,445,165
Changes in working capital		
Decrease (increase) in:		
Receivables	**98,989,023**	63,077,819
Other current assets	**(23,622,422)**	(20,807,952)
Increase (decrease) in:		
Accounts and other payables	**(159,427,485)**	24,675,905
Pension liabilities	**(15,261,019)**	–
Net cash generated from operations	**211,479,787**	308,390,937
Interest received	**2,982,730**	9,084,749
Interest paid	**(1,123,634)**	–
Income taxes paid	**(103,631,383)**	(81,390,540)
Net cash provided by operating activities	**109,707,500**	236,085,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investments in financial asset at FVPL (Note 7)	**1,817,858,135**	505,904,583
Additions to:		
Investments in associates (Note 9)	**(468,380,136)**	(88,783,026)
Available-for-sale financial assets (Note 8)	**(52,746,000)**	(67,719,956)
Financial assets at FVPL (Note 7)	**(2,270,000,000)**	(80,000,000)
Property and equipment (Note 10)	**(31,610,099)**	(7,220,780)
Intangible asset (Note 11)	**(3,217,785)**	–
Proceeds from asset disposal	**1,574,973**	–
Increase in noncurrent assets	**(6,673,048)**	(1,301,631)
Acquisition of subsidiary, net of cash acquired	**(45,000,000)**	(909,883,243)
Net cash used in investing activities	**(1,058,193,960)**	(649,004,053)

(Forward)

	September 30	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of shares (Note 22)	**1,243,200,000**	–
Loan availments	**93,000,000**	–
Deposit for future stock subscription (Note 14)	**24,615,925**	–
Transaction cost (Note 22)	**(44,823,003)**	–
Dividends paid (Note 22)	**(86,265,841)**	(74,925,026)
Payment of short-term loan payable (Note 13)	**(90,000,000)**	(4,500,000)
Net cash provided by (used in) financing activities	**1,139,727,081**	(79,425,026)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	**2,678,702**	–
NET INCREASE IN CASH	**193,919,323**	(492,343,933)
CASH AT BEGINNING OF PERIOD	**305,885,002**	957,917,228
CASH AT END OF PERIOD (Note 5)	**₱499,804,325**	₱465,573,295

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

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

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

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

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

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

The accompanying interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on November 9, 2016.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The interim condensed consolidated financial statements of the Group as of September 30, 2016 and for the nine-month periods ended September 30, 2016 and 2015, have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

Accordingly, the interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements as of and for the year ended December 31, 2015.

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

Statement of Compliance
The accompanying interim condensed consolidated financial statements of the Group as of September 30, 2016 and December 31, 2015 and for the nine-month periods ended September 30, 2016 and 2015 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as of September 30, 2016 and December 31, 2015.

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

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

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

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

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

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

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

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

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

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

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

As of September 30, 2016 and December 31, 2015, the consolidated financial statements comprise the financial statement of the Parent Company and the following domestic subsidiaries:

	Percentage Ownership		
	September 30, 2016	December 31, 2015	**Principal Activities**
Fluxion, Inc. (Fluxion)	**100.00%**	65.00%	Enterprise services
Xeleb Inc. (Xeleb)	**100.00**	67.00	Mobile consumer services
Seer Technologies, Inc. (Seer)	**70.00**	70.00	Enterprise services
Codesignate Inc. (Codesignate)*	**52.50**	52.50	Enterprise services
Storm Flex Systems, Inc. (Storm)	**51.06**	51.06	Human resource management
Yondu, Inc. (Yondu)	**51.00**	51.00	Mobile consumer services and enterprise services
Xurpas Enterprise Inc. ("Xurpas Enterprise)	**100.00**	–	Enterprise services

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

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

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

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 35% interest in Fluxion. The acquisition of the 35% interest resulted in Fluxion being a wholly-owned subsidiary of the Parent Company.

On August 22, 2016, Fluxion acquired 3,350,000 shares or 67% majority stake in Xeleb from the Parent Company at ₱1.00 per share or ₱3.35 million. On the same date, Fluxion acquired the remaining 33% stake in Xeleb from its minority stakeholders for a total consideration of ₱1.65 million. This resulted in 100% ownership interest of Fluxion in Xeleb.

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations which became effective beginning January 1, 2016. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  These Amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These Amendments do not affect the Group since it has no investment in joint ventures

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
  The Amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity

method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. These Amendments will not have any impact on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The Amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The Amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the Amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The Amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These Amendments are not relevant to the Group.

- PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments)
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing PFRS preparer, this standard would not apply.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The Amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These Amendments do not have any impact to the Group given that it has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment,* and PAS 41, *Agriculture - Bearer Plants* (Amendments)
  The Amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the Amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The Amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, Accounting for Government Grants

and Disclosure of Government Assistance, will apply. These Amendments do not have any impact to the Group as it does not have any bearer plants.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19*, Employee Benefits - regional market issue regarding discount rate*
- PAS 34*, Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from date of placement and that are subject to an insignificant risk of changes in value.

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

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

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

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

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

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

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

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

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

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

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

As of September 30, 2016 and December 31 2015, the Group's financial instruments are of the nature of loans and receivables, financial assets at FVPL, AFS financial assets and other financial liabilities.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' difference amount. Accounts receivables are recognized initially at original invoice amounts. These are subsequently carried at cost unless when it is collectible beyond one year, in which, they are carried at amortized cost using the effective interest method.

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

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

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

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

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

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

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

As of September 30, 2016 and December 31, 2015, the Group holds its investment in Unit Investment Trust Fund (UITF) Security Bank (SB) Peso money market fund as held for trading and classified these as financial assets at FVPL (see Note 7).

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to "Cash and cash equivalents" and "Accounts receivables" accounts in the consolidated statements of financial position.

After initial measurement, accounts receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" account in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as "Provision for impairment losses" under "General and administrative expenses" account.

Accounts receivables are included in current assets if maturity is within 12 months from the reporting date.

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

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

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

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

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

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

Other financial liabilities
Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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

Impairment of Financial Assets

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

Loans and receivables

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

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

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

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

AFS financial assets

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

Financial liability

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

Offsetting of Financial Instruments

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

Investments in Associates

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

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

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

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

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

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

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

Property and Equipment

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

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

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

	Years
Transportation equipment	3
Office equipment	3 to 4
Information Technology (IT) equipment	4
Furniture and fixtures	3 to 5
Leasehold improvements	4 years or lease term, whichever is shorter

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

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

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

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

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

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

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

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

The estimated useful lives of intangible assets follow:

	Years
Customer relationships	Indefinite
Leasehold rights	7
Developed software	8

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Combinations of Entities under Common Control</u>
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity reserve
Equity reserve represents a portion of equity against which the recognized liability for a written put option was charged.

Stock dividends
A stock dividend is considered to be small if the new shares being issued are less than 20-25% of the total number of shares outstanding prior to the stock dividend. On the declaration date of a small stock dividend, the dividend recorded is equal to market value of the shares being issued.

A stock dividend is considered to be large if the new shares being issued are more than 20-25% of the total value of shares outstanding prior to the stock dividend. On the declaration date of a large stock dividend, the dividend recorded is equal to the par value of the shares being issued.

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

Service income
Service income is recognized when the service has been rendered in accordance with the terms of the contract.

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

Interest income
Interest income is recognized as it accrues.

Other income
Other income is recognized as they accrue.

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

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

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

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

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

Operating Leases

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

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

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

Group as lessee

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

Income tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deposit for Future Stock Subscription
Deposit for future stock subscription pertain to the stockholders' planned additional capital investment in the Group which cannot be directly credited to capital stock issued pending approval by and registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. Under the Financial Reporting Bulletin 006 as revised in 2013, an entity shall classify a contract to deliver its own equity instruments under equity as a separate account from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:

a. The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
b. There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
c. There is stockholders' approval of said proposed increase; and
d. The application for the approval of the proposed increase has been filed with the Commission

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability.

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

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

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

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

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

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

Events after Reporting Period

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

3. Significant Accounting Judgments and Estimates and Assumptions

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

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

Judgments

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

a. *Investment in subsidiaries*

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

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

b. *Existence of significant influence over an associate*

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

c. *Capitalization of development costs*

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

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

d. *Identifiable intangible assets acquired through business combination*

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

   The following are the intangible assets acquired through business combinations:

   i. Customer Relationship - pertains to Yondu's noncontractual and contractual agreements with Globe Telecom Inc. (GTI), its major customer which are expected to generate revenues for the Group in subsequent periods

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

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

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

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

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

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

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

The carrying values of the Group's accounts receivable amounted to ₱657.42 million and ₱756.41 million as of September 30, 2016 and December 31, 2015 respectively (see Note 6).

Estimating useful lives of property and equipment
The Group estimates the useful lives of these assets based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The net book value of property and equipment as of September 30, 2016 and December 31, 2015 amounted to ₱71.36 million and ₱58.18 million, respectively.

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

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

The factors that the Group considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and significant changes in the manner of use of the acquired assets or the strategy for overall business.

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

The carrying values of these nonfinancial assets follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Other current assets	**₱67,920,894**	₱44,298,472
Investment in associates	**562,449,774**	102,809,116
Property and equipment	**71,360,044**	58,183,944
Intangible assets	**1,877,403,044**	1,888,282,481
Other noncurrent assets	**36,683,419**	30,049,094
	₱2,615,817,175	₱2,123,623,107

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

The Group's deferred tax assets amounted to ₱44.05 million and ₱42.52 million as of September 30, 2016 and December 31, 2015, respectively.

Fair value of financial instruments
PFRS requires certain financial assets and liabilities to be carried at fair value or have the fair values disclosed in the notes, which requires use of extensive accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the consolidated statement of comprehensive income and consolidated statement of changes in equity. Certain financial assets and liabilities of the Group were initially recorded at its fair value by using the discounted cash flow methodology. See Note 24 for the related balances.

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

			Carrying Values	
	Intangible Asset	**Valuation Technique**	**September 30, 2016**	December 31, 2015
Yondu	Customer relationships	MEEM	**₱1,077,809,700**	₱1,077,809,700
	Developed software	MEEM	**82,019,307**	90,912,963
	Leasehold rights	Premium profits method	**10,336,097**	11,646,290
Storm	Leasehold rights	Premium profits method	**3,169,608**	3,608,475
Seer	Leasehold rights	Premium profits method	**865,955**	978,905
			₱1,174,200,667	₱1,184,956,333

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

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

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

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

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

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

4. Seasonality of Interim Operations

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

5. Cash

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash on hand	**₱688,191**	₱393,149
Cash in banks	**499,116,134**	305,491,853
	₱499,804,325	₱305,885,002

Cash in banks earn interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to ₱2.99 million and ₱8.58 million for the nine-month periods ended September 30, 2016 and 2015, respectively.

6. Accounts Receivable

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade receivables	**₱613,882,474**	₱717,171,131
Advances to employees	**2,094,474**	3,686,835
Receivable from third parties	**1,813,667**	–

(Forward)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Receivable from related parties (Note 19)	**121,006**	697,318
Others	**41,002,198**	38,339,002
	658,913,819	759,894,286
Less: Allowance for impairment loss	**1,496,118**	3,487,562
	₱657,417,701	₱756,406,724

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI) and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of September 30, 2016 and December 31, 2015, the Group's receivables from GTI amounted to ₱484.45 million and ₱414.61 million, respectively, which comprise 79% and 58%, respectively, of the total trade receivables (Note 24).

Advances to employees pertain to noninterest-bearing salary loans made by the employees and are collectible in one year.

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

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

7. Financial Assets at Fair Value through Profit or Loss

The Group invested in the SB Peso Money Market Fund (the Fund). The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. As of September 30, 2016 and December 31, 2015, the fair value of the Group's total investment in the Fund is as follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cost	**₱535,000,000**	₱80,000,000
Unrealized gains	**1,306,726**	317,867
	₱536,306,726	₱80,317,867

The fair value of the investment in UITF is valued at ₱127.61 and ₱107.02 NAV per unit as of September 30, 2016 and December 31, 2015, respectively, and is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available such as quoted market prices or dealer quotes for similar instruments. Thus, the fair value measurement is categorized under Level 2 of fair value hierarchy (Note 24).

8. Available-for-Sale Financial Assets

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Unquoted equity investments	**₱44,244,956**	₱44,244,956
Quoted equity investments	**240,000**	240,000
Unquoted debt investments	**93,878,123**	41,132,123
	138,363,079	85,617,079
Less: current portion	**70,403,123**	17,657,123
	₱67,959,956	₱67,959,956

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

	September 30	
	2016	2015
	(Unaudited)	(Unaudited)
Balance at January 1	**(₱210,000)**	(₱225,000)
Unrealized gain (loss) on AFS financial asset	**–**	(25,000)
Balance at September 30	**(₱210,000)**	(₱250,000)

Unquoted equity investments
In April 2015, the Group acquired 666,666 million shares of Series A Preferred Stock of Zowdow Inc. ("Zowdow"), formerly Quick.ly, Inc., at a purchase price of $1.50 per share for a total investment of US$999,999 or ₱44.24 million. As of September 30, 2016 and December 31, 2015, the Group holds a 4.22% ownership of Zowdow on a fully-diluted basis.

Fair value of unquoted equity investments was determined using prices from recent sales at arm's length transaction. No unrealized gain or loss was recognized during the period for these investments (Note 24).

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

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

<u>MatchMe Pte. Ltd.</u>
On November 2, 2015, the Group acquired a convertible promissory note for US$300,000 issued by MatchMe Pte. Ltd. ("MatchMe"), an associate of the Group based in Singapore (Note 9). The principal and interest will be due and payable six (6) months from the date of the note. Interest will accrue at 5% per annum.

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

<u>Pico Candy Pte. Ltd.</u>
In August 2013, the Group invested in Pico Candy Pte. Ltd.'s convertible bonds amounting to SG $0.10 million, which is equivalent to ₱3.60 million. PicoCandy Pte. Ltd. operates a digital sticker distribution platform. It was founded in 2013 and is based in Singapore.

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

On September 22, 2016, the Group acquired additional convertible promissory note for US$200,000 issued by Altitude Games. The principal and interest shall be due and payable twelve (12) months from the date of the note. Interest shall accrue on an annual basis at the rate of 3%.

Carrying amount of the investments in unquoted debt investments as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
MatchMe Pte. Ltd	**₱37,945,000**	₱14,055,000
Einsights Pte, Ltd	**23,475,000**	23,475,000
Altitude Games Pte. Ltd.	**28,856,000**	–
Pico Candy Pte. Ltd	**3,602,123**	3,602,123
	₱93,878,123	₱41,132,123

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

9. Investments in Associates

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at beginning of the period	**₱102,809,116**	₱33,220,576
Additions during the period	**469,780,137**	72,583,350
Cumulative translation adjustment	**–**	6,484,416
Equity in net loss during the period	**(10,139,479)**	(9,479,226)
Balance at end of the period	**₱562,449,774**	₱102,809,116

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

	Percentages of Ownership		**Carrying Amounts**	
	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)	**September 30, 2016 (Unaudited)**	December 31, 2015 (Audited)
Altitude Games Pte. Ltd	**21.78%**	21.78%	**₱27,780,547**	₱31,403,073
Altitude Games Inc.	**21.17**	21.17	**–**	108,776
MatchMe Ltd.	**31.52**	31.52	**55,489,354**	60,468,564
Sembilan Digital Investama	**49.00**	49.00	**9,399,736**	10,828,703
Micro Benefits Limited	**23.53**	–	**469,780,137**	–
			₱562,449,774	₱102,809,116

Altitude Games Pte. Ltd
On December 11, 2014, the Parent Company acquired 11.76% stake for 13.33 million ordinary shares in Altitude Games PTE Ltd ("Altitude Games"), a Singaporean IT company engaged in computer game development and publishing. The Parent Company paid ₱17.98 million as consideration for the said investment.

On the same date, Mr. Nico Jose S. Nolledo, a stockholder, assigned his 11.36 million ordinary shares representing 10.02% ownership in Altitude Games pursuant to the Deed of Assignment to the Parent Company.

As of September 30, 2016 and December 31, 2015, the Parent Company owns 21.78% ownership in Altitude Games resulting from the said acquisitions. The Parent Company acquired a total of 24.69 million shares with par value of US$0.01 per share for a total consideration of US$740,800 or US$0.03 per share.

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

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

PT Sembilan Digital Investama
On March 26, 2015, the Parent Company acquired 49% stake holding in Sembilan Digital Investama (SDI) amounting to ₱10.98 million. The acquisition gave the Parent Company access to PT Ninelives Interactive ("Ninelives"), a mobile content and distribution company in Indonesia, which SDI owns.

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

10. Property and Equipment

The Group acquired property and equipment amounting to ₱31.61 million during the nine-month period ended September 30, 2016. Depreciation expense amounted to ₱17.48 million and ₱4.24 million for the nine-month periods ended September 30, 2016 and 2015, respectively.

The Group's fully depreciated property and equipment with aggregate cost of ₱21.01 million are still in use as of September 30, 2016 and December 31, 2015, respectively.

11. Intangible Assets

This account consists of:

September 30, 2016

	Goodwill	**Customer Relationship**	**Developed Software**	**Leasehold Rights**	**Total**
Cost					
Balance at January 1	**₱687,808,790**	**₱1,077,809,700**	**₱111,123,483**	**₱17,378,812**	**₱1,894,120,785**
Additions during the period	**–**	**–**	**3,217,785**	**–**	**3,217,785**
Balance at September 30	**687,808,790**	**1,077,809,700**	**114,341,268**	**17,378,812**	**1,897,338,570**
Accumulated amortization					
Balance at January 1	**–**	**–**	**4,693,062**	**1,145,242**	**5,838,304**
Amortization	**–**	**–**	**12,235,206**	**1,862,016**	**14,097,222**
Balance at September 30	**–**	**–**	**16,928,268**	**3,007,258**	**19,935,526**
Net Book Value	**₱687,808,790**	**₱1,077,809,700**	**₱97,413,000**	**₱14,371,554**	**₱1,877,403,044**

December 31, 2015

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Total
Cost					
Additions during the year	₱–	₱–	₱13,534,939	₱–	₱13,534,939
Additions through business combination	687,808,790	1,077,809,700	97,588,544	17,378,812	1,880,585,846
At end of year	687,808,790	1,077,809,700	111,123,483	17,378,812	1,894,120,785
Accumulated amortization					
Amortization	–	–	4,693,062	1,145,242	5,838,304
Net Book Value	₱687,808,790	₱1,077,809,700	₱106,430,421	₱16,233,570	₱1,888,282,481

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

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

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

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

12. Accounts and Other Payables

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Trade payable	**₱114,410,681**	₱123,967,093
Dividends payable	**82,410,790**	253,485,070
Accrued expenses	**71,977,414**	32,600,870
Deferred output VAT	**55,581,815**	74,513,636
Taxes payable	**30,266,538**	32,332,480
Payable to related parties (Note 19)	**3,400,948**	2,810,181
Others	**10,168,648**	3,034,989
	₱368,216,834	₱522,744,319

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

Dividends payable pertain to amount payable to GTI for dividends declared before the Parent Company acquired shares in Yondu.

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

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

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

Others consist of statutory payables to SSS, Philhealth and HDMF. These are noninterest-bearing and are normally settled within one year.

13. Loans Payable

This account pertains to short-term, secured and interest-bearing loans entered into by the Group with local banks with interest rates ranging from 3.75% to 6.75% per annum.

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at January 1	**₱13,998,370**	₱–
Additions through business combination	**–**	13,998,370
Additions	**93,000,000**	–
Settlements	**(90,000,000)**	–
Balance at September 30	**₱16,998,370**	₱13,998,370

Interest expense recognized in the Group's statement of comprehensive income amounted to ₱1.12 million for the nine-month period ended September 30, 2016.

14. Deposit for Future Stock Subscription

On August 24, 2016, the Group executed a Subscription Agreement with various individuals wherein the latter offers to the other parties a total of 390,637,000 common shares of Fluxion Inc., a subsidiary, conditional upon securing the certificate of approval for the increase in authorized capital to be issued by the SEC, and other parties agree to subscribe such shares.

On the same date, the BOD and stockholders of Fluxion Inc. approved the increase of authorized capital stock from ₱5.00 million to ₱100.00 million consisting of 4,000,000,000 common shares and the change of par value from ₱1.00 to ₱0.025 per share.

On September 2016, Fluxion Inc. received a total of ₱24.62 million from Selajo Inc., Joseliemm Holdings, Inc., Conrev Inc., and Rainy Day Future Entertainment, Inc. as initial payment for their subscription to the increase in authorized capital stock.

As of September 30, 2016, the amendment on the articles of incorporation are still in the process of application and is subject for approval by the SEC.

15. Service Income

Service income, amounting to ₱1,062.47 million million and ₱470.91 million for the nine-month periods ended September 30, 2016 and 2015, respectively, pertain to revenues earned from mobile consumer products and services and enterprise services rendered by the Group to its major customer, GTI, other telecommunication companies and corporations.

For the nine-month periods ended September 30, 2016 and 2015, the Group's revenue from GTI amounted to ₱919.95 million and ₱423.27 million, respectively, which comprise approximately 86% and 90%, respectively, of the total service income of the Group.

16. **Cost of Services**

Cost of services for the nine-month periods ended September 30, 2016 and 2015 consists of:

	For the nine-month period ended		For the three-month period ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	**September 30, 2016 (Unaudited)**	September 30, 2015 (Unaudited)
Salaries, wages and employee benefits	**₱333,405,588**	₱68,090,920	**₱110,932,311**	₱36,989,913
Segment fee and network costs	**75,945,791**	17,527,936	**22,623,003**	5,994,264
Outsourced services	**51,696,099**	22,472,008	**32,118,683**	6,748,719
Royalty fees	**34,211,829**	2,162,895	**12,394,995**	2,162,895
Depreciation and amortization	**14,857,071**	1,462,459	**4,669,328**	1,151,941
Web hosting	**8,893,668**	8,819,011	**2,811,603**	3,383,594
Consultancy fees	**8,542,023**	5,556,089	**2,655,943**	5,556,089
Rent (Note 18)	**8,411,603**	5,298,491	**2,633,967**	1,633,349
Utilities	**5,344,374**	3,859,046	**1,519,253**	2,082,238
Transportation and travel	**2,275,101**	833,010	**1,359,467**	340,622
Prizes and winnings	**1,183,066**	1,121,772	**515,855**	542,505
Seminars and trainings	**37,940**	489,108	**6,500**	83,438
Others	**4,038,684**	6,101,845	**1,943,661**	767,724
	₱548,842,837	₱143,794,590	**₱196,184,569**	₱67,437,291

17. **General and Administrative Expenses**

General and administrative expenses for the nine-month periods ended September 30, 2016 and 2015 consists of:

	For the nine-month period ended		For the three-month period ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	**September 30, 2016 (Unaudited)**	September 30, 2015 (Unaudited)
Salaries, wages and employee benefits	**₱98,363,894**	₱39,038,771	**₱32,091,273**	₱25,238,852
Repairs and maintenance	**26,305,245**	1,668,974	**8,778,431**	1,275,228
Rent (Note 18)	**18,575,557**	1,815,656	**7,464,105**	1,408,418
Depreciation and amortization	**16,763,170**	2,981,850	**5,814,888**	1,156,328
Professional fees	**16,547,153**	13,994,782	**4,853,977**	3,751,220
Outsourced services	**14,868,326**	3,206,881	**5,506,827**	1,450,957
Marketing and promotions	**10,589,148**	5,398,024	**4,005,846**	3,887,023
Utilities	**8,498,442**	395,777	**2,926,239**	224,772
Taxes and licenses	**8,454,058**	1,983,101	**2,409,016**	583,642
Transportation and travel	**8,142,619**	4,343,747	**3,304,302**	2,866,117
Entertainment, amusement and recreation	**7,668,689**	3,721,546	**4,122,428**	1,255,743
Dues and subscription	**6,210,168**	1,217,946	**1,841,573**	656,251
Supplies	**5,108,424**	2,051,083	**3,367,525**	1,665,728
Advertising	**3,448,039**	4,201,848	**568,507**	2,995,311
Seminars and trainings	**3,256,928**	431,537	**2,625,244**	288,120
Interest expense	**1,123,634**	334,213	**262,938**	296,380
Miscellaneous	**5,117,704**	2,022,526	**122,216**	193,472
	₱259,041,198	₱88,808,262	**₱90,065,335**	₱49,193,562

18. **Operating Lease Commitments**

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

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱26.99 million and ₱7.11 million for the nine-month periods ended September 30, 2016 and 2015, respectively (see Notes 16 and 17).

As of September 30, 2016 and December 31, 2015, the future minimum lease payments within one year under noncancellable operating leases amounted to ₱25.76 million and ₱32.51 million, respectively.

19. Related Party Transactions

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

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

Details of transactions with related parties and their outstanding payables to a related party as of September 30, 2016 and December 31, 2015 follow:

			Outstanding Balance			
			September 30, 2016		December 31, 2015	
	Terms	**Conditions**	**Receivable**	**Payable**	Receivable	Payable
Associate						
Cost of services	Noninterest-bearing	Unsecured, no impairment	**₱–**	**₱2,651,258**	₱–	₱1,809,459
Stockholders						
Advances	One year; noninterest-bearing	Unsecured, no impairment	**121,006**	**3,400,948**	697,318	–
			₱121,006	**₱0**	₱697,318	₱1,809,459

	Amount / Volume			
	September 30, 2016 (Nine Months)	September 30, 2015 (Nine Months)	**September 30, 2016 (Three Months)**	September 30, 2015 (Three Months)
Associate				
Cost of services	**₱6,452,459**	₱8,198,110	**₱2,107,909**	₱2,281,079
Stockholders				
Advances	**821,746**	–	**2,266,561**	–
	₱7,066,833	₱8,198,110	**₱4,374,470**	₱2,281,079

Affiliates:

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

   Total outsourced services charged under "Cost of services" account in the consolidated statements of comprehensive income amounted to ₱2.86 million during the nine-month period ended September 30, 2016, and outstanding payables amounted to ₱1.23 million as of September 30, 2016.

b. In 2014, the Parent Company gained an exclusive right to distribute one of Altitude Games Singapore's game, Run Run Super V. In return, the Parent Company shall pay Altitude Games Singapore a certain percentage of the revenues generated from such applications.

   For the nine-month period ended September 30, 2016, the Group recognized "Outsourced Services" under "Cost of Services" amounting to ₱3.59 million in relation to the aforementioned transaction. As of September 30, 2016, payable to Altitude Singapore amounted to ₱1.43 million.

Stockholders:

Transactions with stockholders pertain to advances for reimbursement of common expenses incurred by the stockholders in behalf of the Group.

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱26.49 million and ₱31.00 million for the nine-month periods ended September 30, 2016 and 2015, respectively.

20. Income Taxes

Provision for income tax for the nine-month periods ended September 30, 2016 and 2015 consists of:

	September 30	
	2016 (Unaudited)	2015 (Unaudited)
Current	**₱94,827,661**	₱79,614,003
Deferred	**(8,816,951)**	(4,648,893)
Final	**536,113**	1,714,044
	₱86,546,823	₱76,679,154

21. Business Combinations

Xeleb Inc.

On August 22, 2016, Fluxion acquired 67% majority stake in Xeleb from the Parent Company. On the same date, Fluxion acquired the remaining 33% stake in Xeleb from the remaining minority stakeholders. Both Fluxion and Xeleb are under the common control of the Parent Company before and after the acquisition. As such, the Group has accounted for the business combination using the pooling of interests method.

Under the pooling of interests method, the assets and liabilities of the combining entities were reflected in the interim consolidated financial statements at their carrying amounts. No new goodwill was recognized as a result of the combination. The difference between the acquisition cost and the net assets acquired was reflected within equity under the “Equity reserve” account.

As allowed under Philippine Interpretations Committee (PIC) Q&A No. 2012-01, *Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements,* no restatement was made for period prior to the business combination.

The following were the carrying values of the identifiable assets and liabilities of Xeleb as at August 22, 2016, the date of combination:

Assets	
Cash	₱2,721,562
Receivables	12,633,970
Intangible assets	7,927,618
Other assets	14,144,457
	37,427,607
Liabilities	
Accounts and other payables	13,911,670
Income tax payable	2,186,401
	16,098,071
Total net assets acquired	21,329,536
Acquisition cost	5,000,000
Equity reserves	₱16,329,536

Below is the revenue and cost and expenses of Xeleb for the nine-month period ended September 30, 2016:

Total revenue	₱54,847,347
Total costs and expenses	23,278,930
Net income	₱31,568,417

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

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

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

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

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

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

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

Seer Technologies Inc. ("Seer") and subsidiary

On June 25, 2015, the Parent Company acquired 70,000 shares representing 70% stake holdings in Seer at a price of ₱18.00 million. Codesignate is a 75% owned subsidiary of Seer.

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

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

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

Assets	
Cash	₱3,706,340
Receivables	29,735,813
Other current assets	7,297,243
Property and equipment	3,381,984
Intangible assets	1,054,205
Deferred tax asset	5,562,638
Other noncurrent asset	2,886,447
	53,624,670
Liabilities	
Accounts and other payables	22,014,409
Loans payable	13,998,370
Pension liability	6,959,000
Finance lease liability	3,906,890
Deferred tax liability	316,262
	47,194,931
Net assets	6,429,739
Non-controlling interests in Seer	1,928,922
Total net assets acquired	4,500,817
Goodwill	13,499,183
Acquisition cost	₱18,000,000

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

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

Yondu Inc. ("Yondu")

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

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

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

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

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

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

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

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

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

22. **Equity**

The details of the number of shares as of September 30, 2016 and December 31, 2015 follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Authorized - common shares (₱0.10 par value)	**5,000,000,000**	5,000,000,000
Issued and outstanding		
Balance at beginning of period	**1,720,000,660**	1,720,000,660
Issuance of new shares through cash subscription	**77,700,000**	–
Balance at end of period	**1,797,700,660**	1,720,000,660

Capital Stock and Additional Paid-in Capital (APIC)
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 APIC. The Parent Company incurred transaction costs incidental to the share

issuance amounting to ₱44.82 million which were charged to "Additional paid-in capital" in the consolidated statement of financial position.

Initial Public Offering
On November 12, 2014, PSE approved the 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.58 million) for the IPO of the Parent Company.

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

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

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

Retained Earnings
Appropriations
On December 29, 2015, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱65.82 million.

Dividends declaration
On April 29, 2015, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱0.04 per share, or the aggregate amount of ₱68.80 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as of May 14, 2015 and payable to stockholders on or before June 2, 2015.

On May 10, 2016, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱0.048 per share, or the aggregate amount of ₱86.27 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as of May 31, 2016 and payable to stockholders on June 23, 2016.

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

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

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

The Group's sources of capital follow:

	September 30 2016 (Unaudited)	December 31, 2015 (Audited)
Capital stock	**₱179,770,066**	₱172,000,066
Additional paid-in capital	**2,410,325,160**	1,219,718,163
Retained earnings	**314,059,999**	250,798,331
	₱2,902,555,503	₱1,642,516,560

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies in 2016 and 2015.

23. Earnings Per Share

Basic earnings per share for the nine-month periods ended September 30, 2016 and 2015 were computed as follows:

		For the nine-month period ended		For the three-month period ended	
		September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	**September 30, 2016 (Unaudited)**	September 30, 2015 (Unaudited)
a.	Net income attributable to the equity holders of the Parent Company	**₱149,527,509**	₱167,701,203	**₱47,619,840**	₱54,162,265
b.	Weighted average number of outstanding shares	**1,763,671,463**	1,720,000,660	**1,763,671,463**	1,720,000,660
c.	Earnings per share (a/b)	**₱0.08**	₱0.10	**₱0.03**	₱0.03

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

24. Financial Instruments

Fair Value

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

Cash and cash equivalents, accounts receivable and accounts and other payables (excluding "Taxes payable", "Deferred output VAT", and statutory payables included as "Others") – Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.

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

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

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

Fair Value Hierarchy

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

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

AFS - quoted equity security amounting to ₱0.24 million as of September 30, 2016 and December 31, 2015 was classified under Level 1 category.

Financial assets at FVPL, AFS unquoted equity and debt instruments and financial liability at FVPL - The fair value measurements are categorized under Level 2 of fair value hierarchy. Carrying amounts of these assets are set out below:

	September 30 2016 (Unaudited)	December 31, 2015 (Audited)
Financial assets at fair value through profit or loss	**₱536,306,726**	₱80,317,867
AFS unquoted equity investments	**44,244,956**	44,244,956
AFS unquoted debt investments	**93,878,123**	41,132,123
	₱674,429,805	₱1,642,516,560

There have been no reclassifications from Level 1 to Level 2 or 3 categories for the nine-month period ended September 30, 2016.

Financial Risk Management and Objectives and Policies
The Group's financial instruments comprise cash and cash equivalents, accounts receivables, financial assets at FVPL, AFS financial assets, accounts and other payables (excluding taxes payable, deferred output VAT and statutory payables) and financial liability at FVPL, which arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.

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

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

The Group's risk management policies are summarized below:

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

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

The Group entered into an agreement with GTI, wherein the former will provide mobile consumer products and services and enterprise services to the latter in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile consumer products and services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI's mobile phone subscribers. Enterprise services, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI's mobile content products. The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 79% and 58% of its total trade receivables as of September 30, 2016 and December 31, 2015, respectively (see Note 6). Recent economic condition and market segment of GTI shows its continuing growth and success.

The Group adheres to fixed limits and guidelines in its dealings with counterparty banks. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, the Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

Except for cash in bank, the Group's maximum exposure to credit risk as of September 30, 2016 and December 31, 2015 is equal to the carrying values of its financial assets.

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

Cash in banks, financial assets at FVPL and AFS financial assets - based on the nature of the counterparty and the Group's rating procedure. These are held by counterparty banks with minimal risk of bankruptcy and are therefore classified as high grade.

Accounts receivable - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

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

The maturity profile of the Group's financial assets and financial liabilities at September 30, 2016 and December 31, 2015 are based on contractual undiscounted payments.

As of September 30, 2016 and December 31, 2015, the Group's financial assets and financial liabilities have a maturity of less than one year.

25. Segment Reporting

The industry segments where the Group operates follow:

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

The following tables regarding business segment revenue and profit information for the nine-month periods ended September 30, 2016 and 2015:

2016 (Unaudited)

	Mobile consumer services	Enterprise services	Other services	Intersegment Adjustments	Consolidated
Revenue from services to external customers	**₱630,211,397**	**₱493,403,218**	**₱2,527,100**	**(₱61,388,133)**	**₱1,064,753,582**
Revenue from sale of goods	**–**	**–**	**41,882,677**	**–**	**41,882,677**
Equity in net loss of associates	**(10,139,479)**	**–**	**–**	**–**	**(10,139,479)**
Operating expenses	**(400,346,920)**	**(422,927,761)**	**(67,512,725)**	**54,163,569**	**(836,623,837)**
Operating profit	**219,724,998**	**70,475,457**	**(23,102,948)**	**(7,224,564)**	**259,872,943**

(Forward)

	Mobile consumer services	**Enterprise services**	**Other services**	**Intersegment Adjustments**	**Consolidated**
Dividend income	**9,100,000**	**–**	**–**	**(9,100,000)**	**–**
Interest income	**3,099,521**	**98,995**	**8,530**	**(224,316)**	**2,982,730**
Other income	**11,226,984**	**6,959,697**	**507,189**	**(2,097,510)**	**16,596,360**
Provision for (benefit from) income tax	**(76,343,803)**	**(20,942,283)**	**7,512,561**	**3,226,702**	**(86,546,823)**
Net income (loss)	**₱166,807,700**	**₱56,591,866**	**(₱15,074,668)**	**(₱15,419,688)**	**₱192,905,210**
Net income attributable to:					
Equity holders of Xurpas Inc.					**₱149,527,509**
Noncontrolling interests					**43,377,701**
					₱192,905,210

2015 (Unaudited)

	Mobile Consumer services	Enterprise services	Other services	Intersegment Adjustments	Consolidated
Revenue from services to external customers	₱380,856,808	₱75,677,030	₱3,789,702	(₱1,820,880)	₱458,502,660
Revenue from sale of goods	–	–	35,930,578	–	35,930,578
Equity in net loss of associates	(6,086,636)	–	–	–	(6,086,636)
Operating expenses	(149,802,232)	(62,602,036)	(54,508,509)	3,411,201	(263,501,576)
Operating profit	224,967,940	13,074,994	(14,788,229)	1,590,321	224,845,026
Dividend income	11,375,000	–	–	(11,375,000)	–
Interest income	8,503,693	76,946	–	–	8,580,639
Other income	5,558,241	65,536	11,249	–	5,635,026
Provision for income tax	(71,746,904)	(4,932,250)	–	–	(76,679,154)
Net income (loss)	₱178,657,970	₱8,285,226	(₱14,776,980)	(₱9,784,679)	₱162,381,537
Net income (loss) attributable to:					
Equity holders of Xurpas Inc.					₱167,701,203
Noncontrolling interests					(5,319,666)
					₱162,381,537

26. Events After Reporting Date

On October 6, 2016, the Parent Company signed a Share Purchase Agreement for the acquisition of 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 agency that offers a marketing platform for advertisers. The aggregate consideration is approximately US$45.00 million. The consideration consists of both cash and Xurpas shares. The Xurpas shares shall be computed on a 30-day weighted average and shall be based on the average market value of Xurpas shares 15 days before and 15 days after closing date, October 6, 2016.

On October 7, 2016, the Board of Directors approved the application for initial public offering of Fluxion, Inc. (currently in the process of securing approval from Securities and Exchange Commission for the change of its corporate name from Fluxion, Inc. to Xeleb Technologies Inc.) to the Small, Medium and Emerging (SME) Board of the Exchange.

On the same date, the Board of Directors approved the filing of the Parent Company's application to transfer from the Small, Medium and Emerging Board of the Philippine Stock Exchange, Inc. ("PSE") to PSE's Main Board. This application was filed with the PSE on October 22, 2016.

27. Approval of Financial Statements

The unaudited interim condensed consolidated financial statements of the Group as of September 30, 2016 and December 31, 2015 and for the nine-month periods ended September 30, 2016 and 2015 were approved and authorized for issue by the BOD on November 9, 2016.

AGING OF RECEIVABLES

The aging analysis of accounts receivable presented per class follows:

September 30, 2016

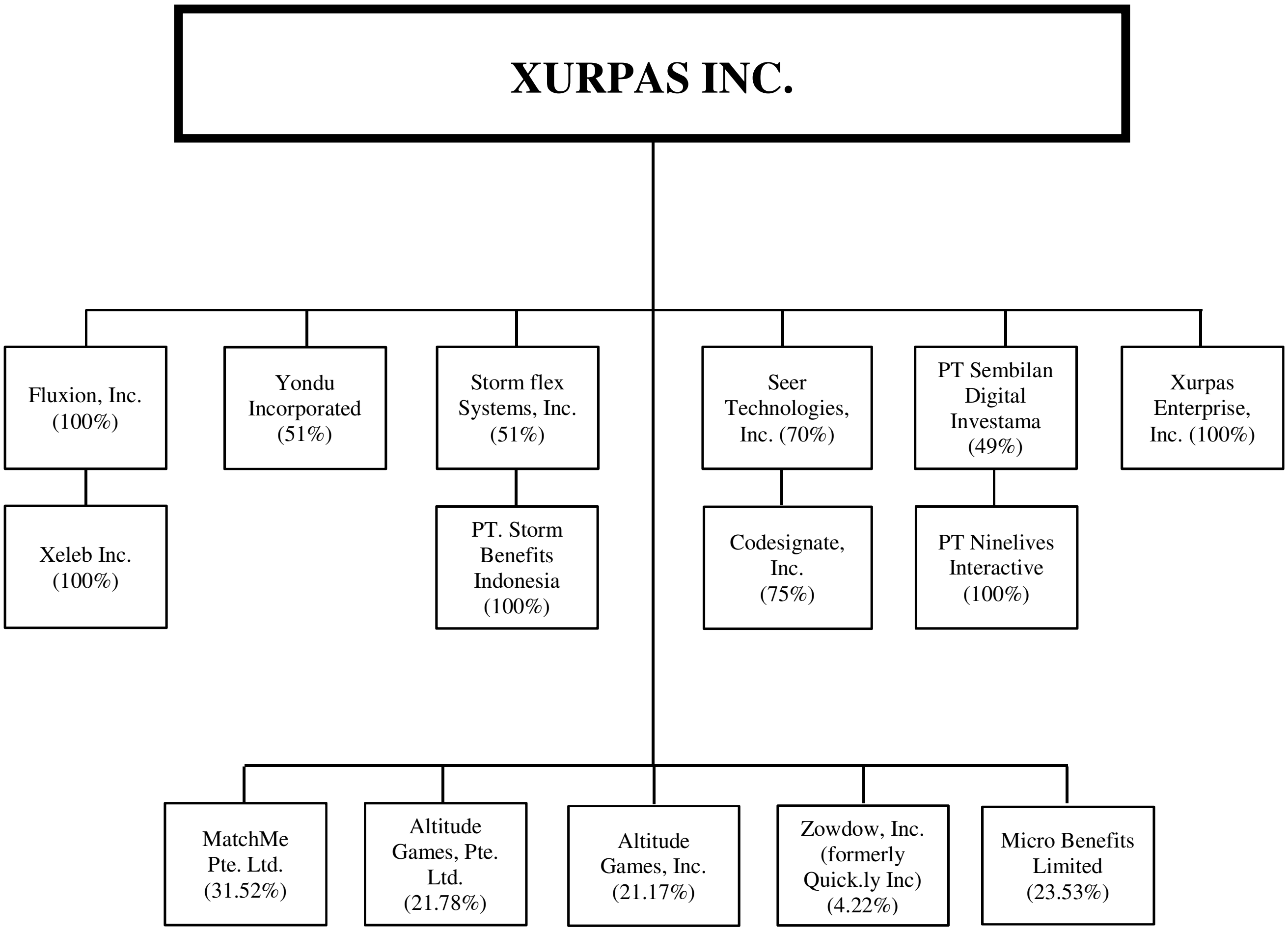
	Neither Past Due nor Impaired	Past Due but Not Impaired <30 days	30 to <90 days	>90 days	Impaired Financial Assets	Total
Trade receivable	**₱248,625,094**	**₱80,665,778**	**₱73,836,864**	**₱209,258,620**	**₱1,496,118**	**₱613,882,474**
Advances to employees	**859,644**	**796,305**	**139,607**	**298,918**	**–**	**2,094,474**
Receivable from third parties	**1,813,667**	**–**	**–**	**–**	**–**	**1,813,667**
Receivable from related parties	**121,006**	**–**	**–**	**–**	**–**	**121,006**
Others	**7,437,865**	**4,416,969**	**1,149**	**29,146,215**	**–**	**41,002,198**
	₱258,857,276	**₱85,879,052**	**₱73,977,620**	**₱238,703,753**	**₱1,496,118**	**₱658,913,819**

December 31, 2015

	Neither Past Due nor Impaired	Past Due but Not Impaired <30 days	30 to <90 days	>90 days	Impaired Financial Assets	Total
Trade receivable	₱465,599,270	₱86,348,837	₱75,255,770	₱61,806,053	₱28,161,201	₱717,171,131
Advances to employees	3,509,932	–	–	176,903	–	3,686,835
Receivable from related parties	697,318	–	–	–	–	697,318
Others	31,659,016	–	–	6,679,986	–	38,339,002
	₱501,465,536	₱86,348,837	₱75,255,770	₱68,662,942	₱28,161,201	₱759,894,286

XURPAS INC. AND SUBSIDIARIES

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS SUBSIDIARIES AND ASSOCIATE



XURPAS INC. AND SUBSIDIARIES

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of September 30, 2016**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements **Conceptual Framework Phase A: Objectives and qualitative characteristics**		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transaction			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Servicing Contracts	✓		
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Financial Instruments (2014 or final version)	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment to PFRS 10: Investment Entities: Applying the Consolidation Exception	✓		
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	**Not early adopted**		
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
	Acquisitions of Interests in Joint Operations			
PFRS 12	Disclosure of Interests in Other Entities	✔		
	Amendments to PFRS 12: Investment Entities	✔		
PFRS 13	Fair Value Measurement	✔		
	Amendments to PFRS 13: Short-term receivable and payables	✔		
	Amendments to PFRS 13: Portfolio Exception	✔		
PFRS 14	Regulatory Deferral Accounts			✔
PFRS 15	Revenue from Contracts with Customers**	**Not early adopted**		
PFRS 16	Leases**	**Not early adopted**		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✔
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✔		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✔		
	Amendment to PAS 1: Disclosure Initiative	✔		
PAS 2	Inventories	✔		
PAS 7	Statement of Cash Flows	✔		
	Amendment to PAS 7: Disclosure Initiative	**Not early adopted**		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Reporting Date	✔		
PAS 11	Construction Contracts			✔
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		
	Amendment to PAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses	**Not early adopted**		
PAS 16	Property, Plant and Equipment	✔		
	Amendment to PAS 16: Classification of servicing equipment			✔
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✔
	Amendment to PAS 16 and PAS 38: Clarification of	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
	Acceptable Methods of Depreciation and Amortization			
	Amendments to PAS 16 and PAS 41: Bearer Plants			✔
PAS 17	Leases	✔		
PAS 18	Revenue	✔		
PAS 19	Employee Benefits	✔		
	Amendments to PAS 19: Actuarial Gains and Losses, Group plans and disclosures	✔		
PAS 19 (Amended)	Employee Benefits	✔		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✔		
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✔
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates	✔		
	Amendment: Net Investment in a Foreign Operation	✔		
PAS 23 (Revised)	Borrowing Costs			✔
PAS 24 (Revised)	Related Party Disclosures	✔		
	Amendments to PAS 24: Key Management Personnel	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✔
PAS 27	Consolidated and Separate Financial Statements	✔		
PAS 27 (Amended)	Separate Financial Statements	✔		
	Amendments to PAS 27: Investment Entities	✔		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✔		
PAS 28	Investment in Associate	✔		
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✔
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	**Not early adopted**		
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 31	Interests in Joint Ventures			✔
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 32: Classification of Rights Issues			✔
	Amendments to PAS 32: Tax effect of distribution to holders of equity instruments	✔		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting	✔		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✔		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✔		
PAS 36	Impairment of Assets	✔		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✔
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✔		
PAS 39	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔
	Amendments to PAS 39: The Fair Value Option			✔
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✔
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✔
	Amendment to PAS 39: Eligible Hedged Items			✔
	Amendment to PAS 39: Novation of Derivatives			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
	and Continuation of Hedge Accounting			
PAS 40	Investment Property			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2016		Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-12	Consolidation - Special Purpose Entities			✔
	Amendment to SIC - 12: Scope of SIC 12			✔
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✔
SIC-15	Operating Leases - Incentives			✔
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✔
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✔
SIC-29	Service Concession Arrangements: Disclosures.			✔
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔

** Effectivity has been deferred by the SEC and FRSC*
*** New standard issued by the IASB has not yet been adopted by the FRSC*

XURPAS INC. AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

	September 30, 2016
Unappropriated Retained Earnings, beginning	₱144,069,724
Add: Net income during the period closed to retained earnings	
(Parent Company)	106,228,549
Equity in net loss of associate	10,139,479
Provision for deferred income tax	2,221,071
Less:	
Unrealized gain from financial assets at FVPL	(1,253,931)
Cash dividends declared	(86,265,841)
Unappropriated Retained Earnings, end available for dividend distribution	₱175,139,051

XURPAS INC. AND SUBSIDIARIES
FINANCIAL RATIOS

Financial Ratios	September 30, 2016	December 31, 2015
A. Current ratios		
Current ratios	142%	84%
Quick ratios	136%	81%
B. Solvency ratios/ debt-to-equity ratios	59%	231%
C. Asset-to-equity ratios	222%	428%
D. Profitability ratios		
Net income margin	14%	25%
Gross margin	48%	57%
Operating margin	28%	39%
Return on total assets	4%	9%
Return on equity	11%	19%

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

Key Financial Data In PhP Thousands	For the 9 months ended September 30					
	2016		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Revenues						
Mobile consumer services	575,368	51%	379,036	75%	196,332	52%
Enterprise services	486,858	43%	75,677	15%	411,181	543%
Other services	44,410	4%	39,720	8%	4,689	12%
Interest income	2,983	0%	8,581	2%	(5,598)	-65%
Other income	16,596	2%	5,635	1%	10,961	195%
Total Revenues	**1,126,215**	**100%**	**508,649**	**100%**	**617,566**	**121%**
Cost of Services	548,843	49%	143,795	28%	405,048	282%
Cost of Goods Sold	28,740	3%	30,899	6%	(2,159)	-7%
Gross Profit	**548,633**	**49%**	**333,956**	**66%**	**214,677**	**64%**
General and Administrative Expenses	259,041	23%	88,808	17%	170,233	192%
Equity in Net Loss of Associate	10,139	1%	6,087	1%	4,053	67%
Income Before Income Tax	**279,452**	**25%**	**239,061**	**47%**	**40,391**	**17%**
Provision for Income Tax	86,547	8%	76,679	15%	9,868	13%
Net Income	**192,905**	**17%**	**162,382**	**32%**	**30,524**	**19%**

Key Financial Data In PhP Thousands	Sept. 30, 2016 (Unaudited) Amount	Dec. 31, 2015 (Audited) Amount	Amount Change	% Increase
Total Assets	4,491,763,496	3,394,373,415	1,097,390,081	32%
Total Liabilities	1,673,492,587	1,830,621,862	(157,129,275)	-9%
Total Equity	2,818,270,909	1,563,751,553	1,254,519,356	80%

Summary

The net income of the Group for the nine-month period ended September 30, 2016, increased by 19% (from ₱162.38 million in the first nine months of 2015 to ₱192.91million in 2016. Core net income over the same period increased by 21%. Although group revenues were expected to sustain its increasing trend in the first nine months of 2016 vis-à-vis the same period in 2015, net income was not expected to grow at the same pace because of the overall expansion programs of the Group. Furthermore, the parent company is still absorbing its share of the net losses of the technology companies it invested in, many of which are ramping up or still commercializing their operations.

Total revenues increased by ₱617.57 million or 121% for the comparable period, from ₱508.65 million in the first nine months of 2015 to ₱1,126.22 million in the first nine months of 2016. The revenue was enhanced by the introduction of new revenue segments as a result of the acquisitions over 2015 and 2016. These were the enterprise solutions and services of Yondu and Seer and the flexible benefits product of Storm Flex Systems Inc.

The blended cost of services (aggregating the subsidiaries' costs) increased by 282% from ₱143.80 million for the first nine months of 2015 to ₱548.84 million for the comparable period in 2016. Cost of goods sold attributable to other services was ₱28.74 million for the nine-month period ended September 30, 2016 compared to ₱30.90 million over the same period the previous year, a decrease of 7% or ₱2.16 million. This resulted to the improved margins on the items sold. Gross profit margins over total revenues, for the nine-month period ended September 30, 2016 was at 49%, a decrease from the same period last year at 66%. However, in absolute amount, gross profit increased by 64% from ₱333.96 million for the first nine months of 2015 to ₱548.63 million for the same period in the first nine months of 2016.

General and administrative expenses increased by 192%, from ₱88.81 million for the first nine months of 2015 to ₱259.04 million for the same period in 2016. Overall, the increase was mainly due to the costs related to expansion: (i) absorption of the operating expenses of acquired subsidiaries, a number of which are ramping up their operations, (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. The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱10.14 million for the first nine months of 2016. Provision for taxes during the first nine months of 2016 was ₱86.55 million or 13% higher than the same period in 2015 at ₱76.68 million; due to the higher income before tax.

Overall, the net income for the Group increased from ₱162.38 million for the first nine months of 2015 to ₱192.91 million over the same period in 2016; an increase of 19%. Core net income which excludes the non-recurring expenses amounting to ₱4.96 million, was at ₱196.98 million or an increase of 21% over the previous period.

Consolidated total assets as of September 30, 2016 amounted to ₱4,491.76 million, an increase of 32% from ₱3,394.37 million as of December 31, 2015; as a result of the top-up placement of the Parent Company's shares in April 2016. The net increase of ₱1,097.39 million in total assets was mainly brought by the ₱459.64 million increase in investment in associates, ₱193.92 million increase in cash, and ₱449.78 million increase in financial assets at FVPL. Consolidated total liabilities decreased by 9% from ₱1,830.62 million as of December 31, 2015 to ₱1,673.49 million in September 30, 2016, due mainly to the decrease in Accounts and other payables and Income tax payable. Consolidated total equity increased by 80% over the same period, from ₱1,563.75 million to ₱2,818.27 million. This was a result of the additional paid-in capital from the top-up placement.

Segment Financial Performance

	Mobile consumer services	Enterprise services	Other services	Intersegment Adjustments	Consolidated
Revenue from services	630,211,397	493,403,218	2,527,100	(61,388,133)	1,064,753,582
Revenue from sale of goods	-	-	41,882,677	-	41,882,677
Equity in net loss of associates	(10,139,479)	-	-	-	(10,139,479)
Operating expenses	(400,346,920)	(422,927,761)	(67,512,725)	54,163,569	(836,623,837)
Operating profit	219,724,998	70,475,457	(23,102,948)	(7,224,564)	259,872,943
Dividend income	9,100,000	-	-	(9,100,000)	-
Interest income	3,099,521	98,995	8,530	(224,316)	2,982,730
Other income	11,226,984	6,959,697	507,189	(2,097,510)	16,596,360
Provision (benefit) for income tax	(76,343,803)	(20,942,283)	7,512,561	3,226,702	(86,546,823)
Net income	166,807,700	56,591,866	(15,074,668)	(15,419,688)	192,905,210

As of September 30, 2016, mobile consumer services' revenues, operating profit and net income prior to eliminations were ₱630.21 million, ₱219.72 million and ₱166.81 million, respectively. These translated to 35% operating profit margin and 26% net income margin. Enterprise services had operating profit of ₱70.48 million (operating profit margin of 14%) and net income of ₱56.59 million (net income margin of 11%) from revenues of ₱493.40 million. The other services segment has yet to yield a positive contribution to the Group.

Profitability

For the nine-month period ended September 30, 2016 compared with the nine-month period ended September 30, 2015

Revenues

The consolidated revenues of the Group for the period ended September 30, 2016 amounted to ₱1,126.22 million, an increase of 121% from ₱508.65 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	Revenues ultimately derived from providing	• Xurpas Parent Company • Xeleb

services	Mobile consumer services via the Telcos	• Yondu
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	• Fluxion • Seer • Yondu
Other services	Revenues derived from services related to the proprietary platform called "Flex Benefits System," which allows employees to convert their employee benefits to other benefits which includes sale of goods	• Storm Flex

In PhP Thousands	**For the 9 months ended September 30**					
	2016		**2015**		**Amount Change**	**% Increase**
	Amount	**Percentage**	**Amount**	**Percentage**		
Revenues						
Mobile consumer services	575,368	51%	379,036	75%	196,332	52%
Enterprise services	486,858	43%	75,677	15%	411,181	543%
Other services	44,410	4%	39,720	8%	4,689	12%
Interest income	2,983	0%	8,581	2%	(5,598)	-65%
Other income	16,596	2%	5,635	1%	10,961	195%
Total Revenues	**1,126,215**	**100%**	**508,649**	**100%**	**617,566**	**121%**

Revenues from the mobile consumer services segment for the 9-month period ended September 30, 2016 amounted to ₱575.37 million, an increase of 52% from the previous year's same period level of ₱379.04 million. This segment accounts for 51% of the total revenues. On the other hand, revenues from enterprise services (which accounts for 43% of total revenues) increased by 543% in September 30, 2016, to ₱486.86 million from ₱75.68 million in September 30, 2015. Other services booked revenues of ₱44.41 million in September 30, 2016, higher by 12% from the previous level at ₱39.72 million over the same period last year.

Interest income as of September 30, 2016 amounted to ₱2.98 million or 65% lower vis-à-vis the ₱8.58 million from the same period in 2015. Interest income was derived from the interest generated by the Group from its cash deposits in banks and cash equivalents. Other income which includes financial assets at FVPL as of September 30, 2016 amounted to ₱16.60 million or 195% higher vis-à-vis the ₱5.64 million from the same period in 2015.

Expenses

In PhP Thousands	**For the 9 months ended September 30**					
	2016		**2015**		**Amount Change**	**% Increase**
	Amount	**Percentage**	**Amount**	**Percentage**		
Expenses						
Cost of Services	548,843	66%	143,795	55%	405,048	282%
Cost of Goods Sold	28,740	3%	30,899	12%	(2,159)	-7%
General and Administrative Expenses	259,041	31%	88,808	34%	170,233	192%
Total Expenses	836,624	100%	263,502	100%	573,122	218%

As of the first nine months of 2015, Xurpas had as subsidiaries: Fluxion, Storm Flex, Xeleb, and Seer. In contrast, the first nine months of 2016 now also includes Yondu. Xurpas Parent Company consolidated the operating expenses of all its subsidiaries. The Group's consolidated expenses during the period ended September 30, 2015 amounted to ₱836.62 million, a 218% increase from the same period of the previous year at ₱263.50 million. For the first nine months of 2016, cost of services accounted for the bulk of expenses, totaling ₱548.84 million or 66% of the Group's consolidated expenses. For the same period in 2015, cost of services amounted to ₱143.80 million or 55% of overall expenses of ₱263.50 million.

Cost of Services

In PhP Thousands	For the 9 months ended September 30					
	2016		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
Cost of Services						
Salaries, wages and employee benefits	333,406	61%	68,091	47%	265,315	390%
Segment fee and network costs	75,946	14%	17,528	12%	58,418	333%
Outsourced services	51,696	9%	22,472	16%	29,224	130%
Others	87,795	16%	35,704	25%	52,092	146%
Total Expenses	**548,843**	**100%**	**143,795**	**100%**	**405,048**	**282%**

Cost of services totaling ₱548.84 million for the first nine months of 2016, was mainly driven by expenses relating to (1) Salaries, wages, and employee benefits, (2) Segment fee and network costs, and (3) Outsourced services, which accounted for 61%, 14%, 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 first nine months of 2016. Of the total cost of services for the period, 78% is attributable to new subsidiaries. In comparison, as of the first nine months of 2015 cost of services (₱143.80 million) was broken down into 47% salaries, wages, and employee benefits, 12% segment fee and network costs, and 16% outsourced services.

Cost of Goods Sold

For the period ended September 30, 2016, cost of goods sold took up 3% of the Group's consolidated expenses, amounting to ₱28.74 million. This figure was a decrease of 7% from its level at ₱30.90 million in September 30, 2015. Cost of goods sold is attributable to Storm Flex Systems Inc. which was acquired by the Parent Company in the end of February 2015. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold.

General and Administrative Expenses

In PhP Thousands	For the 9 months ended September 30					
	2016		2015		Amount Change	% Increase
	Amount	Percentage	Amount	Percentage		
General and Administrative Expenses						
Salaries, wages and employee benefits	98,364	38%	39,039	44%	59,325	152%
Repairs and maintenance	26,305	10%	1,669	2%	24,636	1476%
Rent	18,576	7%	1,816	2%	16,760	923%
Depreciation and amortization	16,763	6%	2,982	3%	13,781	462%
Others	99,033	38%	43,303	49%	55,730	129%
Total Expenses	259,041	100%	88,808	100%	170,233	192%

General and administrative expenses relating to the Group's operations, for the nine-month period ended September 30, 2016 amounted to ₱259.04 million, higher by 192% compared to previous year's same period level of ₱88.81 million. Salaries, wages, and employee benefits was ₱98.36 million or 38% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱39.04 million for the same period in 2015. The next biggest cost component in September 30, 2016 was repairs and maintenance amounting to ₱26.31 million or 10% of total GAEX. The increase in the GAEX was primarily brought about by the consolidation of operational expenses from acquired subsidiaries, which contributed 74% of the total.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the nine-month period ended September 30, 2016, amounted to ₱10.14 million. These companies are still in their testing phase or are in the process of ramping up or commercializing their operations.

Income before Income Tax

The Group's net income before taxes for nine-month period ended September 30, 2016 was 25% of total revenues or a figure of ₱279.45 million. The net income before taxes for the Group grew 17% from the same period ended September 30, 2015, which posted a figure of ₱239.06 million.

Provision for Income Tax

Provision for income tax during the period ended September 30, 2016 amounted to ₱86.55 million, compared to the same period in 2015, where provision for income tax was ₱76.68 million; a 13% increase.

Net Income

The Group posted a consolidated net income of ₱192.91 million for the first nine months of 2016, an increase of 19% from the previous year's same period at ₱162.38 million. Despite the Group's continuing organizational build-up, acquisition, investment-related expenses during this period versus that on September 30, 2015 the robust revenues generated a healthy net income margin of 17% for the first nine months of 2016.

Core Net Income

As of September 30, 2016, core net income which excludes the non-recurring expenses amounting to ₱4.96 million, was at ₱196.98 million or an increase of 21% over the previous period.

Financial Position

As of September 30, 2016 compared to December 31, 2015

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱499.80 million for the period ended September 30, 2016, a net increase of 63% or ₱193.92 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 ₱657.42 million and ₱756.41 million as at September 30, 2016 and December 31, 2015, respectively, representing a decrease of 13% or ₱98.99 million. In September 30, 2016, trade receivables were valued at ₱613.88 million, whereby Yondu accounts for ₱451.40 million or 74% of the total.

Financial Assets at Fair Value through Profit or Loss

The total Net Asset Value (NAV) and fair value of the Fund as at September 30, 2016 and December 31, 2015 was ₱536.31 million and ₱80.32 million, respectively. Part of the funds raised by the Parent Company after the April 29, 2016 overnight top-up placement was used to invest in the SB Money Market Fund in order to generate liquidity and stable income. The SB Money Market Fund was invested in a diversified portfolio of primarily short-term fixed income instruments. Unrealized gains from this investment amounted to ₱1.25 million as of September 30, 2016.

Available for Sale Financial Assets

As of September 30, 2016, the Group's available for sale financial assets amounted to ₱70.40 million. As of September 30, 2016, the Group's convertible bonds invested in Pico Candy Pte. Ltd, MatchMe, and Altitude Games were at ₱3.60 million, ₱37.95 million and ₱28.86 million, respectively.

Other Current Assets

The Group's consolidated other current assets totaled ₱67.92 million, an increase of ₱23.62 million or 53% 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-net of current portion

As of September 30, 2016, the Group's available for sale financial assets amounted to ₱67.96 million, which was the same figure as at December 31, 2015. These are the investments in Einsights Pte. Ltd. of ₱23.48 million; Quick.ly, Inc.- ₱44.24 million; and Club Punta Fuego at ₱0.24 million.

Investment in Associates

As of September 30, 2016, the Group's consolidated Investment in Associates amounted to ₱562.45 million, a 447% increase from its figure of ₱102.81 million during December 31, 2015. The breakdown of the carrying amounts of these investments are: Altitude Games (₱27.78 million), MatchMe (₱55.49 million), SDI (₱9.40 million), and Micro Benefits Limited (₱469.70 million).

Property and Equipment

The Group's consolidated Property and Equipment was ₱71.36 million in September 30, 2016 vis-à-vis ₱58.18 million in December 31, 2015, or an increase of 23%. This was a result of adding ₱31.61 million worth of said assets in the period ended September 30, 2016. Depreciation expense amounted to ₱17.48 million in the nine-month period as at September 30, 2016. Property and Equipment mainly consisted of transportation, office, information technology equipment, furniture, and fixtures.

Intangible Assets

Intangible assets of ₱1,877.40 million as at September 30, 2016 were recognized in relation to the Group's acquisitions and investments. The amortized amount was ₱14.10 million or 0.7% of the December 31, 2015 figure at ₱1,888.86 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 September 30, 2016, goodwill is at ₱687.81 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of September 30, 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 September 30, 2016, developed software net book value is at ₱97.41 million. Amortization of Developed software for the six-month period as of September 30, 2016 amounted to ₱12.23 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of September 30, 2016, leasehold rights net book value is at ₱14.37 million. Amortization of Leasehold rights for the six-month period as of September 30, 2016 amounted to ₱1.86 million.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱44.05 million as at September 30, 2016, higher by 4% vis-à-vis its December 31, 2015 level at ₱42.52 million.

Other Noncurrent Assets

Other Noncurrent Assets amounted to ₱36.68 million as of September 30, 2016. This figure is 22% higher than the value posted as of December 31, 2015 at ₱30.05 million. This is primarily rental deposits amounting to ₱20.44 million or 56% of total.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱368.22 million as of September 30, 2016 was a 30% decrease from its December 31, 2015 figure of ₱522.74 million. The decrease was largely the reduction of dividends payable valued at ₱253.49 million as at December 31, 2015 to ₱82.41 million as of the first nine months of 2016 for dividends paid to GTI. Dividends payable pertain to amount payable to GTI for dividends declared before the Parent Company acquired shares in Yondu.

The Group's accounts and other payables consisted mainly of trade payables at ₱114.41 million (₱92.43 million from Yondu), dividends payable at ₱82.41 million (₱69.00 million accounted for by Yondu), accrued expenses at ₱71.98 million (₱67.61 million accounted for by Yondu), and deferred output VAT at ₱55.58 million (₱46.44 million accounted for by Yondu).

Loans Payable

The Group's loans payable is attributable to Seer's local bank loans amounting to ₱17.00 million as of September 30, 2016 and December 31, 2015. These are interest-bearing, short-term, and collateralized by Seer's trade receivables. Such loans are payable in 60 days.

Income Tax Payable

The Group's consolidated income tax payable as of September 30, 2016 amounted to ₱30.01 million, a decrease of 23% 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 ₱853.18 million, both as of September 30, 2016 and December 31, 2015.

Deferred Tax Liability

As of September 30, 2016, the deferred tax liability (net) was at ₱354.00 million, a decrease of 2% or ₱6.58 million from ₱360.59 million as of December 31, 2015. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

The accrued pension of the Group is at ₱26.46 million, which was a 35% or ₱14.41 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 the resignation of some Fluxion officers.

Equity

Total Equity

The Group's total equity as of September 30, 2016 was at ₱2,818.27 million, an 80% 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 ₱1,190.61 million, increase of ₱63.26 million in retained earnings, and increase of ₱7.77 million in capital stock as of September 30, 2016. Likewise, as of September 30, 2016, equity reserve of ₱882.91 million was recorded pertaining to the liability for written option. Non-controlling interests were at ₱799.21 million in September 30, 2016, a 3% 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 Technologies Inc. which is short term in nature. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness.

Cash Flows

Key Financial Data In PhP	For the 9 months ended September	
	2016	2015
	Amount	Amount
Net cash provided by Operating Activities	109,707,500	236,085,146
Net cash used in Investing Activities	(1,058,193,960)	(649,004,053)
Net cash provided by (used in) Financing Activities	1,139,727,081	(79,425,026)
Net increase (decrease) in cash	193,919,323	(492,343,933)
Cash at beginning of period	305,885,002	957,917,228
Cash at end of period	**499,804,325**	**465,573,295**

Cash Flows Provided by Operating Activities

For the first nine months of 2016, a strong operating income of ₱310.80 million was coupled with the corresponding increase in account receivables and the decrease in account payables for a resulting ₱211.48 million net cash generated from operations. Together with interest received and income taxes paid, this resulted in a net cash used for operating activities of ₱109.71 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for acquisitions and associates for the first nine months of 2016 was ₱1,058.19 million compared to ₱649.00 million in the same period of 2015. The cash used for investing activities was largely a placement to financial assets at FVPL (₱2,270.00 million) with the corresponding redemption at ₱1,817.86 and net payment for investment in associate (Micro Benefits at ₱468.38 million).

Cash Flows Used in Financing Activities

The Group's consolidated net cash flow provided by financing activities for the nine-month period ended September 30, 2016 was ₱1,139.73 million; compared to ₱79.43 million net cash flow used as of December 31, 2015. For the first nine months of 2016, consolidated net cash flow provided by financing activities was attributable mainly to the issuance of shares worth ₱1,243.20 million, with cash used for its transaction cost amounting to ₱44.82 million and dividends paid for equity attributable to the Parent Company amounting to ₱86.27 million.

Capital Expenditure

The Group's capital expenditures for the nine-month period ended September 30, 2016 and the year ended December 31, 2015 amounted to ₱31.61 million and ₱44.46 million, respectively. Note that in 2015, additions through business combination were ₱44.46 million.

Key Financial Data In PhP Millions	September 30, 2016 Additions	December 31, 2015 Additions	
	(Regular)	(Business Combination)	(Regular)
Office Equipment	0.82	0.53	1.42
IT Equipment	8.43	16.06	1.19
Furniture and Fixutres	3.42	1.00	0.49
Leasehold Improvements	18.94	23.94	4.36
Leased Asset	-	2.86	-
Transportation Equipment	-	0.08	-
Total	31.61	44.46	13.31

Commitments and Contingent Liabilities

The Group has no contingent liabilities for the six-month period at September 30, 2016 and for the year ended December 31, 2015.

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 nine-month period ended September 30		For the years ended December 31	
In Percentage	**2016**	**2015**	2015	2014
Liquidity Ratios				
Current Ratio	**142%**	**175%**	84%	1242%
Quick Ratio	**138%**	**165%**	81%	1238%
Asset-to-Equity Ratio	**222%**	**154%**	217%	111%
Profitability Ratios				
Net Income Margin	**14%**	**32%**	25%	49%
Gross Margin	**48%**	**66%**	58%	71%
Operating Margin	**28%**	**47%**	36%	61%
Return on Total Assets	**4%**	**7%**	7%	12%
Return on Equity	**11%**	**10%**	15%	13%

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Current Ratios

Current Ratio and Quick Ratios in the nine-month period at September 30, 2016 were 142% and 136%, respectively, an increase from their respective 84% and 81% 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 due to the cash provided by financing activities.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 217% in December 31, 2015 to 222% in September 30, 2016 resulted from the large increase in equity, particularly additional paid-in capital. 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 September 30, 2015, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (48%), Net Income Margin (14%), Operating Margin (28%), Return on Total Assets (4%) and Return on Equity (11%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, expansion of operations offshore, salaries and wages paid to the Group's new employees for its organizational build-up program; and payment of professional and legal fees incurred from investments and acquisitions.

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

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

Other Disclosures:

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

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

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

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

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

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

vii. Seasonality. The effects of seasonality or cyclicality on the operations of the Group's business are non-material.