

COVER SHEET

SEC Registration Number

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Company Name

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

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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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| N | / | A |
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COMPANY INFORMATION

Company's Email Address

| |
|--|
| info@xurpas.com |
|--|

Company's Telephone Number/s

| |
|----------|
| 889-6467 |
|----------|

Mobile Number

| |
|-----|
| N/A |
|-----|

No. of Stockholders

| |
|----|
| 25 |
|----|

Annual Meeting
Month/Day

| |
|---------|
| July 17 |
|---------|

Fiscal Year
Month/Day

| |
|---------|
| June 30 |
|---------|

CONTACT PERSON INFORMATION

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

Name of Contact Person

| |
|-----------------------|
| Nico Jose S. Nolloedo |
|-----------------------|

Email Address

| |
|--|
| nix@xurpas.com |
|--|

Telephone Number/s

| |
|----------|
| 889-6467 |
|----------|

Mobile Number

| |
|-----|
| N/A |
|-----|

Contact Person's Address

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2018**
2. Commission identification number **A200117708**
3. BIR Tax Identification No **219-934-330**

4. **Xurpas Inc.**

Exact name of issuer as specified in its charter

Philippines

5. Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (For SEC Use Only)

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

7. Address of issuer's principal office

1227

Postal Code

(632) 889-6467

8. Issuer's telephone number, including area code

Not Applicable

9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class
Common Shares

Number of Shares of Common Stock Outstanding
1,870,940,210

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

Yes [] No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange Common Shares 1,797,700,660

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Unaudited Interim Condensed Consolidated Statements of Financial Position
As at June 30, 2018 (with Comparative Audited Consolidated Statements of Financial Position as at
December 31, 2017)

Unaudited Interim Condensed Consolidated Statements of Income and Comprehensive Income
For the Six-Month Periods Ended June 30, 2018 and 2017

Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the Six-Month Periods Ended June 30, 2018 and 2017

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the Six-Month Periods Ended June 30, 2018 and 2017

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Attachments:

Schedule I: Map Showing the Relationships Between and Among the Companies in the Group, Its Subsidiaries and Associate

Schedule II: Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards

Schedule III: Reconciliation of Retained Earnings Available for Dividend Declaration

Schedule IV: Financial Ratios

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

The MD&A is a discussion and analysis of the Company's financial position as of June 30, 2018 and December 31, 2017 and performance for the six-month periods ended June 30, 2018 and 2017. The primary objective of this MD&A is to help the readers understand the dynamics of the Company's business and the key factors underlying the Company's financial results.

The MD&A as of and for the six-month period ended June 30, 2018 should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes.

PART II--OTHER INFORMATION

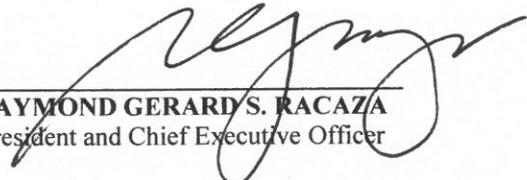
There are no other information for this period not previously reported in SEC Form 17-C that needs to be reported in this section.

SIGNATURES

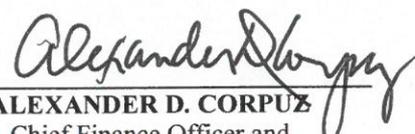
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, on AUG 14 2018.

Issuer: **XURPAS INC.**

By:



RAYMOND GERARD S. RACA
President and Chief Executive Officer



ALEXANDER D. CORPUZ
Chief Finance Officer and
Chief Information Officer

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

XURPAS INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---|---------------------------------|-----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash (Notes 5 and 26) | ₱179,487,833 | ₱215,254,510 |
| Accounts and other receivables (Notes 6 and 26) | 689,419,409 | 845,666,454 |
| Other current assets (Note 9) | 87,389,290 | 57,943,929 |
| Total Current Assets | 956,296,532 | 1,118,864,893 |
| Noncurrent Assets | | |
| Available-for-sale financial assets – net of current portion (Notes 8 and 26) | 159,053,079 | 159,053,079 |
| Investments in associates (Note 10) | 493,916,527 | 515,662,941 |
| Property and equipment (Note 11) | 72,907,556 | 76,145,631 |
| Intangible assets (Note 12) | 3,870,053,168 | 3,773,880,106 |
| Pension asset | 310,699 | 310,699 |
| Deferred tax assets – net | 172,644,891 | 115,527,088 |
| Other noncurrent assets | 49,774,371 | 50,735,845 |
| Total Noncurrent Assets | 4,818,660,291 | 4,691,315,389 |
| | ₱5,774,956,823 | ₱5,810,180,282 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts and other payables (Notes 13 and 26) | ₱424,845,507 | ₱493,108,422 |
| Loans payable (Notes 14 and 26) | 442,519,492 | 377,419,000 |
| Income tax payable | 1,626,202 | 10,081,586 |
| Liability for written put option (Notes 23 and 26) | 864,705,965 | 864,705,965 |
| Payable to former shareholders of a subsidiary (Note 23) | – | 244,426,311 |
| Other current liabilities (Note 15) | 173,594,568 | 77,172,352 |
| Total Current Liabilities | 1,907,291,734 | 2,066,913,636 |
| Noncurrent Liabilities | | |
| Finance lease - net of current portion | 605,713 | 605,713 |
| Deferred tax liabilities – net | 351,862,699 | 355,859,101 |
| Pension liabilities | 31,302,583 | 31,302,583 |
| Total Noncurrent Liabilities | 383,770,995 | 387,767,397 |
| Total Liabilities | 2,291,062,729 | 2,454,681,033 |
| Equity | | |
| Equity attributable to equity holders of Xurpas Inc. | | |
| Capital stock (Note 24) | 193,492,586 | 186,764,015 |
| Additional paid-in capital (Note 24) | 3,592,076,662 | 3,343,119,550 |
| Retained earnings (Note 24) | 185,683,489 | 322,730,858 |
| Net unrealized loss on available-for-sale financial assets (Note 8) | (70,000) | (70,000) |
| Cumulative translation adjustment | 46,721,431 | 35,366,128 |
| Retirement benefit reserve | (1,189,261) | (1,189,261) |
| Equity reserve (Notes 23 and 24) | (1,250,719,186) | (1,250,719,186) |
| Treasury stock (Note 24) | (115,464,275) | (115,464,275) |
| | 2,650,531,446 | 2,520,537,829 |
| Noncontrolling interests | 833,362,648 | 834,961,420 |
| Total Equity | 3,483,894,094 | 3,355,499,249 |
| | ₱5,774,956,823 | ₱5,810,180,282 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements

XURPAS INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the six-month period ended | | For the three-month period ended | |
|---|---------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) |
| INCOME | | | | |
| Service income (Note 16) | ₱569,594,559 | ₱1,177,017,621 | ₱268,858,269 | ₱437,469,298 |
| Sale of goods | 39,875,102 | 31,738,736 | 13,582,331 | 22,285,084 |
| | 609,469,661 | 1,208,756,357 | 282,440,600 | 459,754,382 |
| COST AND EXPENSES | | | | |
| Cost of services (Note 17) | 483,835,847 | 771,261,214 | 236,802,619 | 273,904,077 |
| Cost of goods sold | 28,897,761 | 26,328,669 | 8,573,038 | 18,320,736 |
| | 512,733,608 | 797,589,883 | 245,375,657 | 292,224,813 |
| GENERAL AND ADMINISTRATIVE EXPENSES (Note 18) | 243,538,631 | 195,594,173 | 109,508,702 | 93,555,590 |
| EQUITY IN NET LOSSES OF ASSOCIATES (Note 10) | 21,746,414 | 22,231,842 | 10,929,165 | 9,197,397 |
| OTHER CHARGES (INCOME) – NET (Note 19) | 20,267,343 | (1,623,685) | 4,857,164 | (2,608,889) |
| | 285,552,388 | 216,202,330 | 125,295,031 | 100,144,098 |
| INCOME (LOSS) BEFORE INCOME TAX | (188,816,335) | 194,964,144 | (88,230,088) | 67,385,471 |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22) | (45,170,190) | 40,238,562 | (22,518,166) | 15,901,380 |
| NET INCOME (LOSS) | (143,646,145) | 154,725,582 | (65,711,922) | 51,484,091 |
| OTHER COMPREHENSIVE INCOME | | | | |
| <i>Item that may be reclassified to profit or loss in subsequent periods:</i> | | | | |
| Cumulative translation adjustment | 16,355,307 | 15,984,652 | 9,937,841 | 8,111,833 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | (₱127,290,838) | ₱170,710,234 | (₱55,774,081) | ₱59,595,924 |

(Forward)

| | For the six-month period ended | | For the three-month period ended | |
|---|--------------------------------|------------------|----------------------------------|------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net income (loss) attributable to: | | | | |
| Equity holders of Xurpas Inc. | (P)137,047,369 | P108,724,761 | (P)61,416,297 | P13,820,961 |
| Noncontrolling interests | (6,598,776) | 46,000,821 | (4,295,625) | 37,663,130 |
| | (P)143,646,145 | P154,725,582 | (P)65,711,922) | P51,484,091 |
| Total comprehensive income (loss) attributable to: | | | | |
| Equity holders of Xurpas Inc. | (P)125,692,066) | P126,237,954 | (P)56,478,460) | P22,430,144 |
| Noncontrolling interests | (1,598,772) | 44,472,280 | 704,379 | 37,165,780 |
| | (P)127,290,838) | P170,710,234 | (P)55,774,081) | P59,595,924 |
| Earnings (Loss) Per Share (Note 25) | | | | |
| Basic | (P)0.07) | P0.06 | (P)0.03) | P0.01 |
| Diluted | (P)0.07) | P0.06 | (P)0.03) | P0.01 |

See accompanying Notes to Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

| | June 30 | |
|---|------------------------|-----------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS INC. | | |
| CAPITAL STOCK - ₱0.10 par value (Note 24) | | |
| Authorized – 5,000,000,000 shares | | |
| Issued and outstanding | | |
| Balance at beginning of period | ₱186,764,015 | ₱186,764,015 |
| Issuance of new shares through cash subscription | 6,728,571 | – |
| Balance at end of period | 193,492,586 | 186,764,015 |
| ADDITIONAL PAID-IN CAPITAL (Note 24) | | |
| Balance at beginning of period | 3,343,119,550 | 3,343,119,550 |
| Issuance of new shares through cash subscription | 248,957,112 | – |
| Balance at end of period | 3,592,076,662 | 3,343,119,550 |
| RETAINED EARNINGS (Note 24) | | |
| Appropriated | | |
| Balance at beginning of period | 115,464,275 | 235,819,709 |
| Release of appropriation | – | (81,184,011) |
| Balance at end of period | 115,464,275 | 154,635,698 |
| Unappropriated | | |
| Balance at beginning of period | 207,266,583 | 143,993,010 |
| Net income (loss) | (137,047,369) | 108,724,761 |
| Release of appropriation | – | 81,184,011 |
| Cash dividend declaration | – | (92,847,637) |
| Balance at end of period | 70,219,214 | 241,054,145 |
| | 185,683,489 | 395,689,843 |
| NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSET (Note 8) | | |
| Balance at beginning and end of period | (70,000) | (150,000) |
| CUMULATIVE TRANSLATION ADJUSTMENT | | |
| Balance at beginning of period | 35,366,128 | 1,131,974 |
| Movement during the period | 11,355,303 | 17,513,193 |
| Balance at end of period | 46,721,431 | 18,645,167 |
| RETIREMENT BENEFIT RESERVE | | |
| Balance at beginning and end of period | (1,189,261) | (2,939,890) |
| EQUITY RESERVE (Notes 23 and 24) | | |
| Balance at beginning of period | (1,250,719,186) | (892,221,754) |
| Payments to a former shareholder of a subsidiary | – | (358,497,432) |
| Balance at end of period | (1,250,719,186) | (1,250,719,186) |
| TREASURY STOCK (Note 24) | | |
| Balance at beginning of period | (115,464,275) | (71,510,352) |
| Share buy-back transactions during the period | – | (17,305,637) |
| Balance at end of period | (115,464,275) | (88,815,989) |
| | 2,650,531,446 | 2,601,593,510 |
| NONCONTROLLING INTERESTS | | |
| Balance at beginning of period | 834,961,420 | 830,167,876 |
| Cumulative translation adjustment | 5,000,004 | (1,528,541) |
| Net income (loss) | (6,598,776) | 46,000,821 |
| Balance at end of period | 833,362,648 | 874,640,156 |
| | ₱3,483,894,094 | ₱3,476,233,666 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS

| | June 30 | |
|--|-----------------------|---------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income (loss) before income tax | (₱188,816,335) | ₱194,964,144 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 17 and 18) | 31,353,819 | 24,629,279 |
| Equity in net loss of associates (Note 10) | 21,746,414 | 22,231,842 |
| Interest expense (Note 19) | 12,023,645 | 726,692 |
| Provision for impairment loss (Note 18) | 1,621,940 | 5,021,342 |
| Unrealized foreign currency exchange gain (loss) | 509,913 | (2,644) |
| Interest income (Notes 5 and 19) | (305,623) | (1,018,826) |
| Realized gain from redemption of financial assets at FVPL (Note 7) | – | (2,216,289) |
| Pension expense | – | 314,278 |
| Operating income before changes in working capital | (121,866,227) | 244,649,818 |
| Changes in working capital | | |
| Decrease (increase) in: | | |
| Receivables | 154,625,105 | 25,495,073 |
| Other current assets | (29,445,361) | (39,965,809) |
| Increase (decrease) in: | | |
| Accounts and other payables | (69,231,309) | (25,378,744) |
| Other current liabilities | (16,055,918) | (39,332,499) |
| Net cash generated from (used in) operations | (81,973,710) | 165,467,839 |
| Interest received | 305,623 | 1,018,826 |
| Interest paid | (11,055,251) | – |
| Income taxes paid | (24,399,399) | (46,534,333) |
| Net cash provided by (used in) operating activities | (117,122,737) | 119,952,332 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from redemption of investments in financial asset at FVPL (Note 7) | – | 338,131,778 |
| Additions to: | | |
| Intangible assets (Note 12) | – | (3,102,225) |
| Property and equipment (Note 11) | (11,810,672) | (9,616,523) |
| Acquisition of subsidiary, net of cash received | – | (253,368,000) |
| Decrease (increase) in noncurrent assets | 961,474 | 4,266,054 |
| Net cash provided by (used in) investing activities | (10,849,198) | 76,311,084 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from loan availments | 126,455,242 | – |
| Dividends paid (Note 24) | – | (92,847,637) |
| Share buy-back transactions (Note 24) | – | (17,305,637) |
| Payment of short-term loan payable | (61,354,750) | (200,000) |
| Net cash provided by (used in) financing activities | 65,100,492 | (110,353,274) |
| EFFECT OF FOREIGN CURRENCY EXCHANGE | | |
| RATE CHANGES ON CASH | 27,104,766 | 15,987,296 |
| NET INCREASE (DECREASE) IN CASH | (35,766,677) | 101,897,438 |
| CASH AT BEGINNING OF PERIOD | 215,254,510 | 428,517,653 |
| CASH AT END OF PERIOD (Note 5) | ₱179,487,833 | ₱530,415,091 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

XURPAS INC. AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

The accompanying interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on August 14, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements of the Group as at June 30, 2018 and for the six-month periods ended June 30, 2018 and 2017, have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

Accordingly, the interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements as at and for the year ended December 31, 2018.

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

Statement of Compliance

The accompanying interim condensed consolidated financial statements of the Group as at June 30, 2018 and December 31, 2017 and for the six-month periods ended June 30, 2018 and 2017 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as at June 30, 2018 and December 31, 2017.

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

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

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

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

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

As at June 30, 2018 and December 31, 2017, the consolidated financial statements comprise the financial statement of the Parent Company and the following domestic subsidiaries:

| | Percentage Ownership | | Principal Activities |
|---|----------------------|----------------------|--|
| | June 30, 2018 | December 31, 2017 | |
| Xeleb Technologies Inc. (formerly Fluxion, Inc.) (Xeleb Technologies) | 67.00% | 67.00% | Enterprise services |
| Xeleb Inc. (Xeleb) | 67.00 | 67.00 | Mobile consumer services |
| Seer Technologies, Inc. (Seer) | 70.00 | 70.00 | Enterprise services |
| Codesignate Inc. (Codesignate)* | 52.50 | 52.50 | Enterprise services |
| Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.) (Storm) | 56.60 | 56.60 | Human resource management |
| Pt. Storm Benefits Indonesia (Storm Indonesia) | 56.60 | 56.60 | Human resource management Mobile consumer services and enterprise services |
| Yondu, Inc. (Yondu) | 51.00 | 51.00 | Enterprise services |
| Yondu Software Labs Inc. (Yondu Software) | 51.00 | 51.00 | Enterprise services |
| Xurpas Enterprise Inc. (Xurpas Enterprise) | 100.00 | 100.00 | Enterprise services |
| Art of Click Pte. Ltd. (AOC) | 100.00 | 100.00 | Mobile consumer services |
| ODX Pte. Ltd. (ODX) | 100.00 | – | Enterprise services |

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

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

Xeleb Technologies, Inc.

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

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

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

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

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

On November 21, 2016, the SEC approved the increase in authorized capital stock of Xeleb Tech. On the same date, Xeleb Tech issued shares in relation to Subscription Agreements by the Parent Company, Selajo Inc., Conrev Inc., Joseliemm Holdings Inc. and Rainy Day Future Entertainment, Inc. for a total subscription of 1,000,000,000 common shares. This resulted to reduction of Parent Company's interest in Xeleb Tech to 67.00%.

Xurpas Enterprise Inc.

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

Xeleb Inc.

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

Storm Technologies, Inc.

On October 27, 2016, the Parent Company acquired additional 3,735 common shares of Storm for ₱10.00 million. This brought Parent Company's ownership from 51.52% to 56.60% of the outstanding capital stock of Storm and there was no change in control (see Note 23).

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

Art of Click Pte. Ltd.

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

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

ODX Pte. Ltd.

On April 27, 2018, the Parent Company incorporated ODX Pte. Ltd., a technology company domiciled in Singapore. ODX was incorporated primarily to provide other information technology and computer service activities.

Changes in Accounting Policies and Disclosures

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

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

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The Group has assessed that the adoption of these amendments does not have any impact on the consolidated financial statements.

- PFRS 9, *Financial Instruments*

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

The Group continues to assess the impact of adopting PFRS 9.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group continues to assess the potential impact of adopting PFRS 15 in 2018.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The Group has assessed that the adoption of these amendments does not have any impact on the consolidated financial statements.

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that

occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The Group has assessed that the adoption of these amendments does not have any impact on the consolidated financial statements since the Group's current practice is in line with the clarifications issued.

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the consolidated financial statements of the reporting period in which the entity first applies the interpretation.

The Group has assessed that the adoption of these amendments does not have any impact on the consolidated financial statements since the Group's current practice is in line with the clarifications issued.

Standards and Interpretation Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group does not expect that the future adoption of the said pronouncements to have a significant impact on the consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

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

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group plans to adopt the new amendments on the mandatory effective date and is currently assessing the potential impact of adopting PFRS 9.

- PFRS 16, *Leases*

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

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

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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements since the Group's investments in associates are accounted for using equity method.

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

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

The interpretation specifically addresses the following:

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

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

The Group is currently assessing the impact of adopting this interpretation.

Standards and Interpretation with Deferred Effectivity

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

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

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

Cash and cash equivalents

Cash includes cash on hand and in banks. Cash in banks are stated at the face amount and earn interest at the prevailing bank deposit rate. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates 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 26).

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instrument

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

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

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

As at June 30, 2018 and December 31 2017, the Group's financial instruments are of the nature of loans and receivables, financial assets at FVPL, AFS financial assets and other financial liabilities.

'Day 1' difference

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

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

Financial assets at FVPL

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

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

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

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

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

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

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

Loans and receivables

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

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

of such loans and receivables are recognized in the profit or loss as “Provision for impairment losses” under “General and administrative expenses” account. Accounts and other receivables is included in current assets if maturity is within 12 months from the reporting date.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM financial assets, or loans and receivables. These are purchased and held indefinitely, 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 associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. When necessary, adjustments are made to bring the reporting dates and accounting policies in line with those of the Group.

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

Property and Equipment

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

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

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

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

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

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

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

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

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 | 5 to 8 |

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

Research and Development Costs

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

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

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

Business Combinations and Goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and

within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Noncontrolling interests

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

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

Written put option over NCI

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

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

- a. pricing - to the extent that the price is fixed or determinable, rather than being at fair value;
- b. voting rights and decision-making - to the extent that the voting rights or decision-making connected to the shares concerned are restricted;

- c. dividend rights – to the extent that the dividend rights attached to the shares concerned are restricted; and
- d. issue of call options – a combination of put and call options, with the same period of exercise and same/similar pricing indicates that the arrangement is in the nature of a forward contract.

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

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

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

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

Combinations of Entities under Common Control

Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:

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

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

Impairment of Nonfinancial Assets

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

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

Investments in associates

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

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

Intangible assets with indefinite useful life

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

Impairment of goodwill

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

Equity

Capital stock and additional paid-in capital

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

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

Treasury stock

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

Retained earnings

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

Unappropriated retained earnings

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

Appropriated retained earnings

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

Equity reserve

Equity reserve represents:

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

Revenue Recognition

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

Service income

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

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

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

Sale of goods

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

Interest income

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

Other income

Other income is recognized as they accrue.

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”.

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.

Finance Lease

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

Income tax

Current tax

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

Deferred tax

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

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

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

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at

- the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will not reverse in the foreseeable future taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

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

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

Pension Liability

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

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

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

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

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

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

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

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

Foreign Currency Transactions

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

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

Earnings Per Share (EPS)

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets. Financial information on business segments is presented in Note 27 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. Determination of control over investment in subsidiaries

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

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

b. Existence of significant influence over an associate

The Group determined that it exercises significant influence over its associates (see Note 10) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

c. Capitalization of development costs

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

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

d. Determination of identifiable intangible assets acquired through business combination

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

The following are the intangible assets acquired through business combinations:

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

e. 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 GTI's current relationship with the Group 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.

a. *Evaluating impairment of goodwill and intangible assets with indefinite useful lives*

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

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

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

The carrying values of these nonfinancial assets follow:

| | June 30, 2018 | December 31, 2017 |
|---|-----------------------|-------------------|
| Goodwill (Notes 12 and 26) | ₱2,544,617,520 | ₱2,544,617,520 |
| Customer relationship (Notes 12 and 26) | 1,077,809,700 | 1,077,809,700 |
| | ₱3,622,427,220 | ₱3,622,427,220 |

b. *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), "premium profits" method and the relief from royalty method. The table below summarizes the carrying amounts of the intangible assets and the related valuation techniques used to determine fair value at the acquisition date for business combinations in 2015 and 2016. There are no business combinations in 2017 and 2018.

| | Intangible Asset | Valuation Technique | June 30, 2018 |
|-------|-------------------------|----------------------------|-----------------------|
| Yondu | Customer relationships | MEEM | ₱1,077,809,700 |
| | Developed software | MEEM | 61,267,431 |
| | Leasehold rights | Premium profits method | 7,278,869 |
| Storm | Leasehold rights | Premium profits method | 2,145,580 |
| | Seer | Leasehold rights | 602,403 |
| AOC | Developed software | Relief from royalty method | 39,980,782 |
| | | | ₱1,189,084,765 |

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 28.50%
- 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.

c. Provisions and contingencies

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

d. 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 ₱689.42 million and ₱845.67 million as at June 30, 2018 and December 31, 2017 respectively (see Note 6).

e. Recognizing deferred tax assets

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

4. Seasonality of Interim Operations

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

5. Cash

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---------------|--|-----------------------------------|
| Cash on hand | ₱211,970 | ₱385,595 |
| Cash in banks | 179,275,863 | 214,868,915 |
| | ₱179,487,833 | ₱215,254,510 |

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

Interest income earned from cash in banks amounted to ₱0.31 million and ₱1.02 million for the six-month periods ended June 30, 2018 and 2017, respectively.

6. Accounts and Other Receivables

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---|--|-----------------------------------|
| Trade receivables | ₱773,109,256 | ₱933,361,381 |
| Receivable from related parties (Note 21) | 10,034,547 | 7,490,000 |
| Advances to employees | 7,825,490 | 5,159,944 |
| Others | 13,866,165 | 13,449,238 |
| | 804,835,458 | 959,460,563 |
| Less: Allowance for impairment loss | 115,416,049 | 113,794,109 |
| | ₱689,419,409 | ₱845,666,454 |

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI) and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As at June 30, 2018 and December 31, 2017, the Group's receivables from GTI amounted to ₱361.28 million and ₱370.35 million, respectively, which comprise 47% and 58%, respectively, of the total trade receivables (Note 26).

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

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

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

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

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|-------------------------|--|-----------------------------------|
| At beginning of year | ₱113,794,109 | ₱1,883,443 |
| Provisions (Note 18) | 1,621,940 | 106,539,273 |
| Write-off | – | (3,296,697) |
| Translation adjustments | – | 8,668,090 |
| | ₱115,416,049 | ₱113,794,109 |

7. Financial Assets at Fair Value through Profit or Loss

The Group invested in the SB Peso Money Market Fund (the Fund). The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. As at June 30, 2018 and December 31, 2017, the fair value of the Group's total investment in the Fund is as follows:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|------------------|--|-----------------------------------|
| Beginning | ₱– | ₱335,915,489 |
| Additions | – | – |
| Redemptions | – | (338,131,778) |
| Unrealized gains | – | – |
| Realized gains | – | 2,216,289 |
| | ₱– | ₱– |

For the six-month periods ended June 30, 2018 and 2017, the Group recognized realized gain from redemption of financial assets at FVPL under “Other income” amounting to nil and ₱2.62 million, respectively.

8. Available-for-Sale Financial Assets

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|--|--|-----------------------------------|
| Balance at beginning of period | ₱159,053,079 | ₱152,973,079 |
| Additions during the year | – | 6,000,000 |
| Unrealized gain on AFS financial asset | – | 80,000 |
| | 159,053,079 | 159,053,079 |

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

Carrying amount of the investments in available-for-sale financial assets as at June 30, 2018 and December 31, 2017 are as follow:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|----------------------------|--|-----------------------------------|
| Quoted shares | | |
| Club Punta Fuego | ₱380,000 | ₱380,000 |
| Unquoted equity investment | | |
| Zowdow Inc. | 44,244,956 | 44,244,956 |
| Unquoted debt investments | | |
| MatchMe Pte. Ltd. | 52,495,000 | 52,495,000 |
| Altitude Games Pte. Ltd. | 28,856,000 | 28,856,000 |
| Einsights Pte. Ltd. | 23,475,000 | 23,475,000 |
| Social Light Inc. | 6,000,000 | 6,000,000 |
| Pico Candy Pte. Ltd. | 3,602,123 | 3,602,123 |
| | ₱159,053,079 | ₱159,053,079 |

The quoted shares are categorized under the Level 1 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 2 (Note 26).

Quoted equity investments

Quoted equity instruments consist of investment in golf club shares.

Unquoted equity investments

In April 2015, the Group acquired 666,666 million shares of Series A Preferred Stock of Zowdow Inc. (“Zowdow”), formerly Quick.ly, Inc. (“Quick.ly”), at a purchase price of \$1.50 per share for a total investment of US\$999,999 or ₱44.24 million. As at June 30, 2018 and December 31, 2017, the Group holds a 3.56% ownership of Zowdow on a fully-diluted basis.

Fair value of unquoted equity investments was determined using prices from recent sales at arm’s length transaction. No unrealized gain or loss was recognized during the year for these investments (Note 26).

Unquoted debt investments

MatchMe Pte. Ltd.

On November 2, 2015, the Group acquired a convertible promissory note for US\$300,000 (₱14.06 million) issued by MatchMe Pte. Ltd. (“MatchMe”), an associate of the Group based in Singapore (Note 10). On February 11, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$500,000 (₱23.89 million). On October 7, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$300,000 (₱14.55 million).

Altitude Games Pte. Ltd.

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

Einsights Pte. Ltd.

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

Social Light Inc.

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

Pico Candy Pte. Ltd.

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

9. Other Current Assets

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|----------------------------|--|-----------------------------------|
| Prepaid expenses | ₱43,987,778 | ₱26,017,981 |
| Creditable withholding tax | 19,999,050 | 10,110,652 |
| Input VAT | 15,222,984 | 14,671,997 |
| Deferred input VAT | 4,080,261 | 6,895,163 |
| Inventories | 4,099,217 | 248,136 |
| | ₱87,389,290 | ₱57,943,929 |

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

Creditable withholding taxes pertain to prepaid taxes recognized at the amount withheld at source upon payment, and can be carried forward and claimed as tax credit against income tax due.

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services.

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

Inventories include purchases of goods to be sold. These are carried at cost.

10. Investments in Associates

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---|--|-----------------------------------|
| Cost | | |
| Balance at beginning and end of period | ₱575,584,063 | ₱575,584,063 |
| Equity in net loss during the period | | |
| Balance at beginning of period | (80,102,968) | (43,381,613) |
| Share in net loss during the period | (21,746,414) | (36,721,355) |
| Balance at end of period | (101,849,382) | (80,102,968) |
| Cumulative translation adjustment | | |
| Balance at beginning of period | 20,181,846 | 17,653,295 |
| Movement during the period | – | 2,528,551 |
| Balance at end of period | 20,181,846 | 20,181,846 |
| | ₱493,916,527 | ₱515,662,941 |

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

| | Percentages of Ownership | | Carrying Amounts | |
|-------------------------------|--|-----------------------------------|--|-----------------------------------|
| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
| Micro Benefits Limited | 23.53% | 23.53% | ₱410,683,367 | ₱427,067,861 |
| MatchMe Ltd. | 28.59 | 28.59 | 46,879,888 | 51,668,837 |
| Altitude Games Pte. Ltd | 21.78 | 21.78 | 26,625,308 | 26,327,413 |
| PT Sembilan Digital Investama | 49.00 | 49.00 | 9,727,964 | 10,506,945 |
| Altitude Games Inc. | 21.17 | 21.17 | – | 91,885 |
| | | | ₱493,916,527 | ₱515,662,941 |

Micro Benefits Limited

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

MatchMe Pte. Ltd.

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

Altitude Games Pte. Ltd.

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

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

As at June 30, 2018 and December 31, 2017, the Parent Company owns 21.78% ownership in Altitude Games resulting from the said acquisitions. The Parent Company acquired a total of 24.69 million shares with par value of US\$0.01 per share for a total consideration of US\$740,800 or US\$0.03 per share.

PT Sembilan Digital Investama

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

Altitude Games Inc.

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

As at June 30, 2018 and December 31, 2017, there are no capital commitments relating to the Group’s interests in its associates.

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

11. Property and Equipment

The Group acquired property and equipment amounting to ₱11.81 million during the six-month period ended June 30, 2018. Depreciation expense amounted to ₱15.05 million and ₱15.18 million for the six-month periods ended June 30, 2018 and 2017, respectively.

The Group’s fully depreciated property and equipment with aggregate cost of ₱38.14 million are still in use as at June 30, 2018 and December 31, 2017, respectively.

12. Intangible Assets

This account consists of:

June 30, 2018

| | Goodwill | Customer Relationship | Developed Software | Leasehold Rights | Other Intangible Asset | Total |
|---------------------------------|-----------------------|-----------------------|---------------------|--------------------|------------------------|-----------------------|
| Cost | | | | | | |
| At beginning of period | ₱2,544,617,520 | ₱1,077,809,700 | ₱197,646,597 | ₱17,378,812 | ₱- | ₱3,837,452,629 |
| Acquisitions | - | - | - | - | 112,478,134 | 112,478,134 |
| At end of period | 2,544,617,520 | 1,077,809,700 | 197,646,597 | 17,378,812 | 112,478,134 | 3,949,930,763 |
| Accumulated amortization | | | | | | |
| At beginning of period | - | - | 57,461,907 | 6,110,616 | - | 63,572,523 |
| Amortization (Note 17) | - | - | 15,063,728 | 1,241,344 | - | 16,305,072 |
| At end of period | - | - | 72,525,635 | 7,351,960 | - | 79,877,595 |
| Net Book Value | ₱2,544,617,520 | ₱1,077,809,700 | ₱125,120,962 | ₱10,026,852 | ₱112,478,134 | ₱3,870,053,168 |

December 31, 2017

| | Goodwill | Customer Relationship | Developed Software | Leasehold Rights | Total |
|---|-----------------------|-----------------------|---------------------|--------------------|-----------------------|
| Cost | | | | | |
| At beginning of year, as previously reported | ₱2,043,384,111 | ₱1,077,809,700 | ₱125,565,895 | ₱17,378,812 | ₱3,264,138,518 |
| Adjustment as a result of the finalization of the purchase price allocation (see Note 23) | 501,233,409 | - | 61,508,895 | - | 562,742,304 |
| At beginning of year, as restated | 2,544,617,520 | 1,077,809,700 | 187,074,790 | 17,378,812 | 3,826,880,822 |
| Additions during the year | - | - | 10,571,807 | - | 10,571,807 |
| At end of year | 2,544,617,520 | 1,077,809,700 | 197,646,597 | 17,378,812 | 3,837,452,629 |
| Accumulated amortization | | | | | |
| At beginning of year, as previously reported | - | - | 21,488,276 | 3,627,929 | 25,116,205 |
| Adjustment as a result of the finalization of the purchase price allocation (see Note 23) | - | - | 3,075,445 | - | 3,075,445 |
| At beginning of year, as restated | - | - | 24,563,721 | 3,627,929 | 28,191,650 |
| Amortization | - | - | 32,898,186 | 2,482,687 | 35,380,873 |
| At end of year | - | - | 57,461,907 | 6,110,616 | 63,572,523 |
| Net Book Value | ₱2,544,617,520 | ₱1,077,809,700 | ₱140,184,690 | ₱11,268,196 | ₱3,773,880,106 |

Goodwill

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

Customer relationship

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

Developed software

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

Leasehold rights

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

Other intangible asset

Cryptocurrency pertains to 300.00 Bitcoins held by ODX as of June 30, 2018.

13. Accounts and Other Payables

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|--------------------------------------|--|-----------------------------------|
| Trade payables | ₱170,524,812 | ₱218,584,771 |
| Payable to related parties (Note 21) | 98,765,593 | 102,534,280 |
| Accrued expenses | 53,258,719 | 60,604,203 |
| Deferred output VAT | 44,665,056 | 62,546,030 |
| Taxes payable | 26,442,111 | 29,000,225 |
| Others | 31,189,216 | 19,838,913 |
| | ₱424,845,507 | ₱493,108,422 |

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

Accrued expenses mainly consist of accruals for professional fees, utilities, transportation and travel 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.

14. Loans Payable

This account pertains to short-term, unsecured and interest bearing 30- to 360-day term loans from different local banks, with interest rates of 3.00% to 6.00% per annum. As at June 30, 2018 and December 31, 2017, the total outstanding loans payable amounted to ₱442.52 million and ₱377.42 million, respectively.

Interest expense recognized in the consolidated statements of comprehensive income during the six-month periods ended June 30, 2018 and 2017 amounted to ₱12.02 million and ₱0.73 million, respectively (see Note 19).

There were no undrawn loan commitments, transaction costs and interest expenses capitalized as at June 30, 2018 and December 31, 2017.

15. Other Current Liabilities

This account consists of:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|-------------------------|--|-----------------------------------|
| Unearned revenues | ₱148,072,758 | ₱37,830,783 |
| Dividends payable | 24,332,880 | 38,152,639 |
| Finance lease liability | 1,188,930 | 1,188,930 |
| | ₱173,594,568 | ₱77,172,352 |

Unearned revenues mainly pertain to amounts received from clients from which the Group will obtain funds to finance the goods purchased by the clients' employees. This account also includes advance payments made by customers and clients on which goods and services are yet to be delivered.

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

16. Service Income

Service income, amounting to ₱569.59 million and ₱1,177.02 million for the six-month periods ended June 30, 2018 and 2017, respectively, pertain to revenues earned from mobile consumer products and services and enterprise services rendered by the Group to its customers.

17. Cost of Services

Cost of services for the six-month periods ended June 30, 2018 and 2017 consists of:

| | For the six-month period ended | | For the three-month period ended | |
|---------------------------------------|--|---------------------------------|--|---------------------------------|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) |
| Salaries, wages and employee benefits | ₱314,496,191 | ₱298,776,295 | ₱161,330,555 | ₱149,624,948 |
| Outsourced services | 71,992,834 | 324,577,439 | 36,377,571 | 57,047,720 |
| Royalty fees | 23,072,767 | 39,695,266 | 4,072,280 | 21,295,807 |
| Segment fee and network costs | 18,595,120 | 48,937,733 | 6,164,879 | 18,667,881 |
| Depreciation and amortization | 16,930,844 | 15,514,799 | 8,438,720 | 7,456,954 |
| Web hosting | 16,729,508 | 24,172,001 | 6,651,710 | 11,007,902 |
| Consultancy fees | 10,824,073 | 3,973,415 | 6,561,611 | 2,044,503 |
| Rent (Note 20) | 5,342,168 | 5,856,219 | 3,784,792 | 2,352,309 |
| Utilities | 1,357,920 | 4,669,455 | 991,885 | 2,302,390 |
| Prizes and winnings | 93,080 | 939,627 | 71,300 | 547,434 |
| Commission | 86,405 | 743,262 | 86,405 | 700,000 |
| Seminars and trainings | - | 106,233 | - | 106,233 |
| Transportation and travel | - | 1,234,422 | - | 672,973 |
| Others | 4,314,937 | 2,065,048 | 2,270,911 | 77,023 |
| | ₱483,835,847 | ₱771,261,214 | ₱236,802,619 | ₱273,904,077 |

18. General and Administrative Expenses

General and administrative expenses for the six-month periods ended June 30, 2018 and 2017 consists of:

| | For the six-month period ended | | For the three-month period ended | |
|---|---------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) |
| Salaries, wages and employee benefits | ₱121,592,292 | ₱76,766,497 | ₱61,902,585 | ₱39,567,059 |
| Rent (Note 20) | 19,332,822 | 16,323,926 | 8,986,912 | 8,493,683 |
| Taxes and licenses | 16,418,579 | 9,720,335 | 4,206,575 | 3,665,519 |
| Outsourced services | 16,318,322 | 11,662,463 | 5,696,245 | 2,181,249 |
| Depreciation and amortization | 14,422,975 | 9,114,480 | 7,167,002 | 5,159,488 |
| Professional fees | 10,665,113 | 18,852,287 | 6,825,378 | 9,020,803 |
| Utilities | 9,167,174 | 5,419,939 | 4,150,484 | 3,013,880 |
| Repairs and maintenance | 6,281,240 | 1,378,728 | 2,484,382 | 552,775 |
| Advertising | 4,592,323 | 6,185,946 | 1,914,705 | 4,212,052 |
| Transportation and travel | 4,024,269 | 6,607,613 | 1,171,302 | 3,448,110 |
| Dues and subscription | 3,671,614 | 4,750,858 | 1,707,509 | 1,573,108 |
| Entertainment, amusement and recreation | 3,467,994 | 5,167,378 | 1,255,037 | 3,099,398 |
| Marketing and promotions | 3,170,830 | 4,483,559 | 461,004 | 1,563,589 |
| Supplies | 2,161,960 | 2,483,205 | 1,412,685 | 1,358,190 |
| Provision for impairment loss (Note 6) | 1,621,940 | 5,021,342 | 6,524 | 3,097,245 |
| Seminars and trainings | 563,302 | 2,930,142 | 79,729 | 1,686,430 |
| Miscellaneous | 6,065,882 | 8,725,475 | 80,644 | 1,863,012 |
| | ₱243,538,631 | ₱195,594,173 | ₱109,508,702 | ₱93,555,590 |

19. Other Charges (Income) - Net

This account consists of:

| | For the six-month period ended | | For the three-month period ended | |
|--|---------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) |
| Foreign exchange losses | ₱12,331,202 | ₱1,735,055 | ₱189,120 | (₱1,108,124) |
| Interest expense | 12,023,645 | 726,692 | 6,488,208 | 45,788 |
| Bank charges | 2,146,358 | 1,768,187 | 981,890 | 1,300,778 |
| Unrealized gain from revaluation of FVPL | — | (2,216,289) | — | (53,334) |
| Interest income | (305,623) | (1,018,826) | (151,864) | (871,749) |
| Other income | (5,928,239) | (2,618,504) | (2,650,190) | (1,922,248) |
| | ₱20,267,343 | (₱1,623,685) | ₱4,857,164 | (₱2,608,889) |

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

Interest expense pertains to interest incurred from outstanding loans payable.

20. Operating Lease Commitments

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

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱24.67 million and ₱22.18 million for the six-month periods ended June 30, 2018 and 2017, respectively (see Notes 17 and 18).

As at June 30, 2018 and December 31, 2017, the future minimum lease payments within one year under noncancellable operating leases amounted to ₱38.86 million and ₱39.56 million, respectively.

21. Related Party Transactions

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

Terms and conditions of transactions with related parties

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

Details of transactions with related parties and their outstanding payables to a related party as at June 30, 2018 and December 31, 2017 follow:

| | Terms | Conditions | Outstanding Balance | | | |
|-----------------------------------|-------------------------------|--------------------------|---------------------|--------------------|-------------------|---------------------|
| | | | June 30, 2018 | | December 31, 2017 | |
| | | | Receivable | Payable | Receivable | Payable |
| Associate | | | | | | |
| Cost of services | Noninterest-bearing | Unsecured, no impairment | ₱– | ₱– | ₱– | ₱4,724,298 |
| Advances | One year; noninterest-bearing | Unsecured, no impairment | 4,990,000 | – | 4,990,000 | – |
| | | | 4,990,000 | – | 4,990,000 | 4,724,298 |
| Stockholders | | | | | | |
| Payable to directors and officers | Noninterest-bearing | Unsecured, no impairment | – | 98,765,593 | – | 97,809,982 |
| Advances | One year; noninterest-bearing | Unsecured, no impairment | 5,044,547 | – | 2,500,000 | – |
| | | | 5,044,547 | 98,765,593 | 2,500,000 | 97,809,982 |
| | | | ₱10,034,547 | ₱98,765,593 | ₱7,490,000 | ₱102,534,280 |

| | Amount / Volume | | | |
|-----------------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| | June 30, 2018 (Six Months) | June 30, 2017 (Six Months) | June 30, 2018 (Three Months) | June 30, 2017 (Three Months) |
| Associate | | | | |
| Cost of services | ₱– | ₱10,323,184 | ₱– | ₱6,045,845 |
| Stockholders | | | | |
| Payable to directors and officers | 2,525,525 | – | 1,082,882 | – |
| Advances | 2,544,547 | – | – | – |
| | ₱5,070,072 | ₱– | ₱1,082,882 | ₱– |

Associates:

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

For the six-month periods ended June 30, 2018 and 2017, the Group recognized "Outsourced services" under "Cost of services" amounting to nil and ₱4.01 million, respectively, in relation to the aforementioned transaction. As at June 30, 2018 and December 31, 2017, payable to Altitude Games amounted to nil and ₱3.72 million, respectively.

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

Total outsourced services charged under "Cost of services" account in the consolidated statements of comprehensive income amounted to nil and ₱1.64 million, respectively, during the six-month periods ended June 30, 2018 and 2017, and outstanding payables amounted to nil and ₱1.01 million as at June 30, 2018 and December 31, 2017, respectively.

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

For the six-month periods ended June 30, 2018 and 2017, the Group recognized "Outsourced services" under "Cost of services" amounting to nil and ₱10.72 million, respectively. As at June 30, 2018 and December 31, 2017, payable to MatchMe amounted to nil.

- d. Advances to associates also pertain to short-term loan agreement entered into by the Parent Company with Altitude Philippines for working capital purposes.

Stockholders:

- a. In 2017, the Parent Company entered into a loan agreement with its directors amounting to US\$1,945,758 or ₱97.15 million subject to 5% interest rate per annum. The Group recognized interest expense amounting to ₱2.53 million under "Other income (charges)" in its consolidated statements of comprehensive income. As at June 30, 2018, outstanding loans and interest payable amounted to ₱97.15 million and ₱1.61 million, respectively.
- b. Advances to stockholders pertain to cash advances for operational and corporate-related expenses subject to future liquidation. These are noninterest-bearing and are due and demandable.

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱49.95 million and ₱45.17 million for the six-month periods ended June 30, 2018 and 2017, respectively.

22. Income Taxes

Provision for (benefit from) income tax for the six-month periods ended June 30, 2018 and 2017 consists of:

| | June 30 | |
|----------|----------------------|--------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Current | ₱15,550,079 | ₱58,797,327 |
| Deferred | (60,745,521) | (18,632,187) |
| Final | 25,252 | 73,422 |
| | (₱45,170,190) | ₱40,238,562 |

23. Business Combinations and Acquisition of Noncontrolling Interests

Business Combinations

Art of Click Pte. Ltd.

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

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

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

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

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

The Installment Payment payable and Deferred Purchase Consideration in the next three years amounting to ₱760.69 million was initially recognized under “Payable to former shareholders of a subsidiary” in the consolidated statements of financial position. These were measured at its fair value as at acquisition date using an assumed discount rate of 11.55%. In 2016, interest expense and foreign exchange loss amounting to ₱21.96 million and ₱22.78 million, respectively, were recognized in “Other income (charges)” in the consolidated statements of comprehensive income and is reflected in the net income attributable to the equity holders of the Parent Company. As of December 31, 2016, the outstanding payable to former shareholders of a subsidiary amounted to ₱805.43 million.

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

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

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

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

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

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

The net assets recognized in the December 31, 2016 financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the intangible assets owned by AOC which was done by an appraiser accredited by the SEC.

The purchase price allocation has been prepared on a preliminary basis as the fair value of intangible asset (i.e., technology) is being finalized. The following are the preliminary fair values of the identifiable assets and liabilities assumed:

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

In October 2017, the valuation was completed and the acquisition date fair value of the total net assets acquired was determined to be ₱85.67 million, an increase of ₱43.06 million over the provisional value of ₱42.61 million. The 2016 comparative information was restated to reflect the adjustments to the provisional amounts. As a result, an intangible asset for AOC's developed software amounting to ₱61.51 million was recognized. The Deferred Purchase Consideration amounting ₱544.29 million was included as acquisition cost. Total goodwill arising from the acquisition amounted to ₱1,856.81 million. The 2016 comparative income statements were also restated to reflect the increase in amortization expense, additional accretion and interest and foreign exchange adjustments, with a net effect of ₱40.06 million decrease in the 2016 consolidated net income and net income attributable to equity holders of the Parent Company.

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

The fair value of the intangible asset was based on net present value of future cash flows using the "Relief from Royalty" method. The valuation has not been completed by the date the 2016 consolidated financial statements were approved for issue by the BOD.

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

From the date of acquisition on October 6, 2016, the Group's share in the revenue and net income of AOC amounted to ₱477.95 million and ₱120.34 million, respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue and total net income would have been ₱2,120.93 million and ₱334.01 million, respectively.

Cash outflow related to the acquisition follows:

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

Storm Technologies, Inc. ("Storm")

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

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

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

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

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

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

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

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

Cash outflow related to the acquisition follows:

| | |
|--------------------------|--------------------|
| Cash acquired from Storm | ₱110,123,616 |
| Cash paid | 135,366,761 |
| | <hr/> |
| Net cash outflow | <u>₱25,243,145</u> |

From February 26 to December 31, 2015, the Group's share in revenue and net loss of Storm amounted to ₱80.27 million and ₱28.81 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱927.83 million, while the Group's net income would have been ₱226.47 million.

Seer Technologies Inc. (“Seer”) and subsidiary

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

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

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

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

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

| | |
|-----------------------------------|--------------------|
| Assets | |
| Cash | ₱3,706,340 |
| Receivables | 29,735,813 |
| Other current assets | 7,297,243 |
| Property and equipment | 3,381,984 |
| Intangible assets | 1,054,205 |
| Deferred tax asset | 5,562,638 |
| Other noncurrent asset | 2,886,447 |
| | <hr/> |
| | 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 |
| | <hr/> |
| | 47,194,931 |
| Net assets | 6,429,739 |
| Non-controlling interests in Seer | 1,928,922 |
| | <hr/> |
| Total net assets acquired | 4,500,817 |
| Goodwill | 13,499,183 |
| | <hr/> |
| Acquisition cost | <u>₱18,000,000</u> |

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

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

Cash outflow related to the acquisition follows:

| | |
|-------------------------|--------------------|
| Cash acquired from Seer | ₱3,706,340 |
| Cash paid | 18,000,000 |
| | <hr/> |
| Net cash outflow | <u>₱14,293,660</u> |

From June 26 to December 31, 2015, the Group’s share in revenue and net income of Seer amounted to ₱41.02 million and ₱5.27 million, respectively. If the combination had taken place at the beginning of 2015, the Group’s total revenue would have been ₱954.25 million, while the Group’s net income would have been ₱223.72 million.

Yondu Inc. (“Yondu”)

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

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

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

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

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

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

Cash outflow related to the acquisition follows:

| | |
|--------------------------|---------------------|
| Cash acquired from Yondu | ₱175,110,666 |
| Cash paid | 900,000,000 |
| <u>Net cash outflow</u> | <u>₱724,889,334</u> |

From September 15 to December 31, 2015, the Group's share in revenue and net income of Yondu amounted to ₱235.89 million and ₱35.87 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱1,498.37 million, while the Group's net income would have been ₱312.98 million.

Acquisition of Noncontrolling Interests

Xeieb Technologies Inc. (Xeieb Tech)

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

Xeieb Inc. (Xeieb)

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

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

Storm Technologies, Inc. (Storm)

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

24. Equity

The details of the number of shares as at June 30, 2018 and December 31, 2017 follow:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|--------------------------|--|-----------------------------------|
| Authorized shares | 5,000,000,000 | 5,000,000,000 |
| Par value per share | ₱0.10 | ₱0.10 |
| Issued shares | 1,934,925,852 | 1,867,640,146 |
| Treasury shares | 63,985,642 | 63,985,642 |
| Value of shares issued | ₱193,492,586 | ₱186,764,015 |
| Value of treasury shares | (₱115,464,275) | (₱115,464,275) |

Capital Stock and Additional Paid-in Capital (APIC)

On May 2, 2014, the Parent Company's BOD approved the subscription and issuance of 6.75 million shares with par value of ₱1.00 per share from the unissued portion of its ₱10.00 million authorized capital stock.

On May 5, 2014, the Parent Company's BOD approved the following transactions which were subsequently approved by the SEC on June 25, 2014:

- Increase in authorized capital stock from ₱10.00 million divided into 10.00 million common shares with par value of ₱1.00 per share to ₱255.00 million divided into 255.00 million common shares with par value of ₱1.00 per share.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱10.00 million to ₱255.00 million.
- Subscription of 61.25 million shares with par value of ₱1.00 per share, which is paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

On July 10, 2014, the Parent Company's BOD approved the following transactions which were subsequently approved by the SEC on September 2, 2014:

- Increase in authorized capital stock from ₱255.00 million divided into 255.00 million common shares at the par value of ₱1.00 each to ₱500.00 million divided into 500.00 million common shares at the par value of ₱1.00 each.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱255.00 million to ₱500.00 million.
- Subscription of 61.25 million shares with par values of ₱1.00 per share, to be paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

In addition, the Parent Company issued the subscribed 61.25 million shares with par value of ₱1.00 per share and another 5.10 million shares with par value of ₱1.00 per share to certain executives and employees through cash payments.

On September 3, 2014, the Parent Company's BOD approved the decrease in the par value of the capital stock from ₱1.00 per share to ₱0.10 per share. Accordingly, the Parent Company applied for an Amended Articles of Incorporation to decrease the par value of the capital stock. Thus, the Parent Company cancelled all the previously issued stock certificates and reissued new stock certificates to all stockholders effecting the 10-to-1 stock split.

Initial Public Offering (IPO)

On November 12, 2014, PSE approved the 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.68 million) for the IPO of the Parent Company.

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

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

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

Overnight Top-Up Placement

On April 9, 2016, the Parent Company issued and subscribed 77.70 million shares with par value of ₱0.10 for a total consideration of ₱1,243.20 million or ₱16.00 per share. The excess of subscription price over paid-up capital was recognized in APIC. The Parent Company incurred transaction costs incidental to the share issuance amounting to ₱44.82 million which were charged to “Additional paid-in capital” in the consolidated statements of financial position.

Installment Payment in Shares

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

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

Retained Earnings

Appropriations

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

On March 27, 2017, the BOD of the Parent Company approved the termination of the Buy-back Program adopted last November 9, 2016 appropriating an aggregate of ₱170.00 million. A total of ₱88.82 million has been used as of March 31, 2017. Accordingly, the balance of ₱81.18 million previously allocated for the Buy-back Program shall be released from such appropriations.

Dividends declaration

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

Equity Reserve

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

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

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

Treasury Stock

On November 9, 2016, the BOD of the Parent Company approved the buyback of its common shares up to the extent of the total allotment amounting to ₱170.00 million subject to the prevailing market price at the time of the buyback. The Parent Company commenced the program on November 14, 2016 and will end upon full usage of the approved allotment, or as otherwise may be directed by the BOD, subject to an appropriate disclosure to the SEC and PSE. As at December 31, 2016, treasury stocks acquired totaled to 10,687,400 shares and 8,532,900 shares, respectively, which amounted to ₱71.51 million.

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

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

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

Employee Stock Option Plan

The Parent Company's BOD, on January 20, 2016, and the stockholders, on May 11, 2016, approved the Employee Stock Option Plan (the Plan) of the Parent Company. Full time and regular employees of the Parent Company and those deemed qualified by the Compensation and Remuneration Committee from the names recommended by the Executive Committee are eligible to participate in the Plan. As at June 30, 2018, the Plan has been filed with and is pending approval of the SEC and PSE.

Capital Management

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

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

The Group's sources of capital follow:

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|----------------------------|--|-----------------------------------|
| Capital stock | ₱193,492,586 | ₱186,764,015 |
| Additional paid-in capital | 3,592,076,662 | 3,343,119,550 |
| Retained earnings | 185,683,489 | 322,730,858 |
| | ₱3,971,252,737 | ₱3,852,614,423 |

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies as at June 30, 2018 and December 31, 2017.

25. Earnings Per Share

Basic earnings per share for the six-month periods ended June 30, 2018 and 2017 were computed as follows:

| | For the six-month period ended | | For the three-month period ended | |
|--|---------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited) |
| Net income (loss) attributable to the equity holders of the Parent Company | (P137,047,369) | P108,724,761 | (P61,416,297) | P13,820,961 |
| Weighted average number of outstanding shares | 1,848,263,812 | 1,858,409,525 | 1,848,263,812 | 1,858,409,525 |
| Basic earnings per share | (P0.07) | P0.06 | (P0.03) | P0.01 |
| Diluted earnings per share | (P0.07) | P0.06 | (P0.03) | P0.01 |

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

26. Financial Instruments

Fair Value Information

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

- Cash, accounts and other receivables, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding “Taxes payable”, “Deferred output VAT”, “Unearned revenue”, and statutory payables included as “Others”), loans payable, liability on written put option, contingent liability and “Finance lease liability” under other current liabilities - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.
- Financial assets at FVPL - These pertain to investment in UITF. Fair value of investment in UITF is based on NAV as at reporting dates.
- AFS quoted equity security - Fair value is based on quoted prices published in the market and debt securities.
- AFS unquoted equity security and AFS unquoted debt investments - For unquoted equity and debt investments with recent sales at arm’s length transaction, fair values were determined using prices in such transaction.

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

| | June 30, 2018 | | December 31, 2017 | |
|---------------------------|----------------|-------------|-------------------|-------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| AFS financial assets | | | | |
| Quoted equity security | P380,000 | P380,000 | P380,000 | P380,000 |
| Unquoted equity security | 44,244,956 | 44,244,956 | 44,244,956 | 44,244,956 |
| Unquoted debt investments | 114,428,123 | 114,428,123 | 114,428,123 | 114,428,123 |

Fair Value Hierarchy

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

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

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

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

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

Quoted AFS financial assets amounting to ₱0.38 million as at June 30, 2018 and December 31, 2017 were classified under Level 2 (see Note 8).

Unquoted AFS financial assets amounting to ₱158.67 million as at June 30, 2018 and December 31, 2017 were classified under Level 3 (see Note 8).

As at June 30, 2018 and December 31, 2017, there have been no reclassifications from Level 1 to Level 2 or 3 categories.

Financial Risk Management and Objectives and Policies

The Group's financial instruments comprise cash, financial assets at FVPL, accounts and other receivables, AFS financial assets, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding taxes payable, deferred output VAT, customer's deposit and statutory payables), loans payable, liability on written put option, contingent liability and finance lease liability under other current liabilities, which arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.

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

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

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

The Group's risk management policies are summarized below:

Credit Risk

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

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

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

The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 47% and 58% of its total trade receivables as at June 30, 2018 and December 31, 2017, respectively (see Note 6).

The Group's maximum exposure to credit risk is equal to the carrying values of its financial assets as at June 30, 2018 and December 31, 2017.

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

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

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

Unquoted AFS financial assets are unrated.

Liquidity Risk

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

The maturity profile of the Group's financial assets and financial liabilities at June 30, 2018 and December 31, 2017 are based on contractual undiscounted payments.

As at June 30, 2018 and December 31, 2017, the Group's financial assets and financial liabilities have a maturity of less than one year.

27. Segment Reporting

The industry segments where the Group operates follow:

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

The following tables regarding business segment revenue and profit information for the six-month periods ended June 30, 2018 and 2017:

2018 (Unaudited)

| | Mobile consumer services | Enterprise service | Other services | Intersegment Adjustments | Consolidated |
|--|--------------------------------|-----------------------|---------------------|-----------------------------|-----------------------|
| INCOME | | | | | |
| Service income | ₱211,821,300 | ₱386,524,764 | ₱2,994,602 | (₱31,746,107) | ₱569,594,559 |
| Sale of goods | – | – | 39,875,102 | – | 39,875,102 |
| | 211,821,300 | 386,524,764 | 42,869,704 | (31,746,107) | 609,469,661 |
| COST AND EXPENSES | (288,855,395) | (404,189,712) | (90,514,871) | 27,287,739 | (756,272,239) |
| Equity in net losses of associates | – | – | – | (21,746,414) | (21,746,414) |
| Other expenses | (18,395,241) | (624,435) | (2,129,889) | 882,222 | (20,267,343) |
| | (95,429,336) | (18,289,383) | (49,775,056) | (25,322,560) | (188,816,335) |
| Provision for (benefit from) income tax | 22,205,842 | 4,192,714 | 14,775,232 | 3,996,402 | 45,170,190 |
| Net loss | (₱73,223,494) | (₱14,096,669) | (₱34,999,824) | (₱21,326,158) | (₱143,646,145) |
| Net loss attributable to: | | | | | |
| Equity holders of Xurpas Inc. | | | | | (₱137,047,369) |
| Noncontrolling interests | | | | | (6,598,776) |
| | | | | | (₱143,646,145) |

2017 (Unaudited)

| | Mobile consumer services | Enterprise service | Other services | Intersegment Adjustments | Consolidated |
|--|--------------------------------|-----------------------|---------------------|-----------------------------|----------------------|
| INCOME | | | | | |
| Service income | ₱965,833,559 | ₱332,959,122 | ₱2,025,750 | (₱123,800,810) | ₱1,177,017,621 |
| Sale of goods | – | – | 31,738,736 | – | 31,738,736 |
| | 965,833,559 | 332,959,122 | 33,764,486 | (123,800,810) | 1,208,756,357 |
| COST AND EXPENSES | (717,883,836) | (320,084,516) | (71,148,464) | 115,932,760 | (993,184,056) |
| Equity in net loss of associates | – | – | – | (22,231,842) | (22,231,842) |
| Other income (expenses) | (64,393) | 1,012,488 | 113,097 | 562,493 | 1,623,685 |
| | 247,885,329 | 13,887,094 | (37,270,881) | (29,537,399) | 194,964,144 |
| Provision for (benefit from) income tax | (44,880,282) | (8,259,655) | 10,750,239 | 2,151,136 | (40,238,562) |
| Net income (loss) | ₱203,005,048 | ₱5,627,439 | (₱26,520,642) | (₱27,386,263) | ₱154,725,582 |
| Net income attributable to: | | | | | |
| Equity holders of Xurpas Inc. | | | | | ₱108,724,761 |
| Noncontrolling interests | | | | | 46,000,821 |
| | | | | | ₱154,725,582 |

28. Approval of Financial Statements

The unaudited interim condensed consolidated financial statements of the Group as at June 30, 2018 and December 31, 2017 and for the six-month periods ended June 30, 2018 and 2017 were approved and authorized for issue by the BOD on August 14, 2018.

AGING OF RECEIVABLES

The aging analysis of accounts receivable presented per class follows:

June 30, 2018

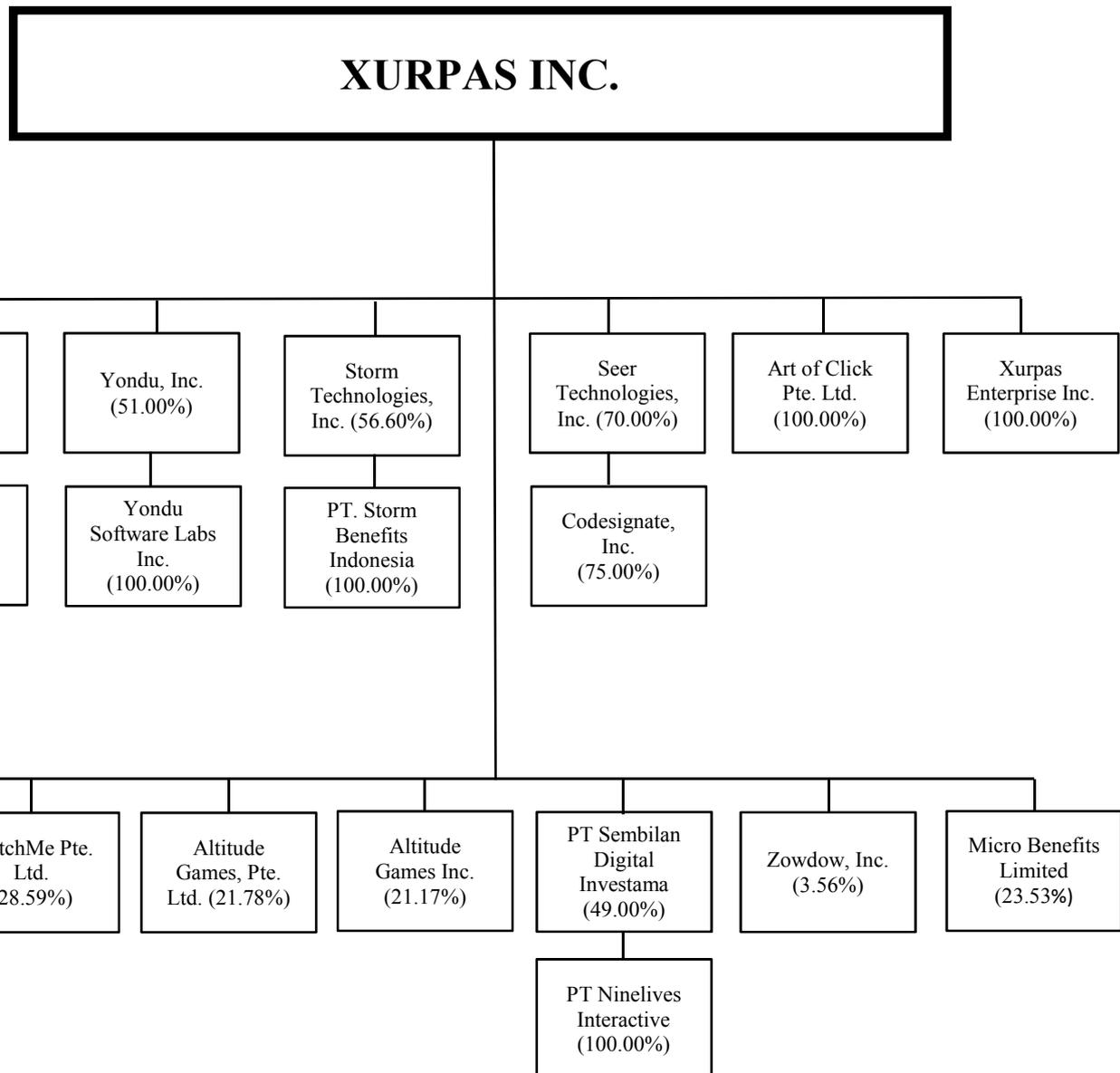
| | Neither Past Due nor Impaired | Past Due but Not Impaired | | | Impaired Financial Assets | Total |
|---------------------------------|-------------------------------------|---------------------------|---------------------|---------------------|---------------------------------|---------------------|
| | | <30 days | 30 to <90 days | >90 days | | |
| Trade receivable | ₱188,979,916 | ₱55,946,926 | ₱106,637,090 | ₱306,129,276 | ₱115,416,048 | ₱773,109,256 |
| Receivable from related parties | 10,034,547 | – | – | – | – | 10,034,547 |
| Advances to employees | 7,825,490 | – | – | – | – | 7,825,490 |
| Others | 13,866,165 | – | – | – | – | 13,866,165 |
| | ₱220,706,118 | ₱55,946,926 | ₱106,637,090 | ₱306,129,276 | ₱115,416,048 | ₱804,835,458 |

December 31, 2017

| | Neither Past Due nor Impaired | Past Due but Not Impaired | | | Impaired Financial Assets | Total |
|---------------------------------|-------------------------------------|---------------------------|--------------------|---------------------|---------------------------------|---------------------|
| | | <30 days | 30 to <90 days | >90 days | | |
| Trade receivable | ₱460,414,835 | ₱49,120,055 | ₱92,662,663 | ₱217,369,719 | ₱113,794,109 | ₱933,361,381 |
| Receivable from related parties | 7,490,000 | – | – | – | – | 7,490,000 |
| Others | 13,449,238 | – | – | – | – | 13,449,238 |
| | ₱481,354,073 | ₱49,120,055 | ₱92,662,663 | ₱217,369,719 | ₱113,794,109 | ₱954,300,619 |

XURPAS INC. AND SUBSIDIARIES

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



XURPAS INC. AND SUBSIDIARIES

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

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as of June 30, 2018:

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|--|---------|-------------|----------------|
| Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| PFRSs Practice Statement Management Commentary | | | | ✓ |
| Philippine Financial Reporting Standards | | | | |
| PFRS 1 (Revised) | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of 'Effective PFRSs | | | ✓ |
| PFRS 2 | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendments to PFRS 2: Definition of Vesting Condition | | | ✓ |
| | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions | | | ✓ |
| PFRS 3 (Revised) | Business Combinations | ✓ | | |
| | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination | ✓ | | |
| | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|--------------------------|--------------------|-----------------------|
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts | | | ✓ |
| | Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance | | | ✓ |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal | | | ✓ |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Servicing Contracts | | | ✓ |
| | Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | ✓ |
| PFRS 8 | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| PFRS 9 | Financial Instruments: Classification and Movement (2010 version) | Not early adopted | | |
| | Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version) | Not early adopted | | |
| | Financial Instruments (2014 or final version) | Not early adopted | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | Not early adopted | | |
| | Amendments to PFRS 9: Prepayment Features with | Not early adopted | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|--|---|--------------------------|--------------------|-----------------------|
| | Negative Compensation | | | |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Investment Entities | ✓ | | |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | | | ✓ |
| | Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| PFRS 11 | Joint Arrangements | | | ✓ |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 12: Investment Entities | ✓ | | |
| | Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle) | | | ✓ |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | ✓ | | |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| PFRS 15 | Revenue from Contracts with Customers | Not early adopted | | |
| PFRS 16 | Leases | Not early adopted | | |
| Philippine Accounting Standards | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the requirements for comparative information | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| | Disclosure Initiative | ✓ | | |
| PAS 8 | Accounting Policies, Changes in Accounting | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|--|--|----------------|--------------------|-----------------------|
| | Estimates and Errors | | | |
| PAS 10 | Events after the Reporting Date | ✓ | | |
| PAS 11 | Construction Contracts | | | ✓ |
| PAS 12 | Income Taxes | ✓ | | |
| | Amendment to PAS 12-Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses | ✓ | | |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of servicing equipment | | | ✓ |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation | | | ✓ |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16: Bearer Plants | | | ✓ |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 (Amended) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | | | ✓ |
| | Amendments to PAS 19: Regional Market Issue regarding Discount Rate | | | ✓ |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| PAS 23 (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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|--|---|----------------|--------------------|-----------------------|
| | Financial Statements | | | |
| PAS 28 | Investment in Associate and Joint Venture | ✓ | | |
| | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | | | ✓ |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures | | | ✓ |
| | Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle) | | | ✓ |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 31 | Interests in Joint Ventures | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| | Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities | ✓ | | |
| | Amendments to PAS 34: - Disclosure of information elsewhere in the interim financial report | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| 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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|--|--|----------------|--------------------|-----------------------|
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| PAS 40 | Investment Property | | | ✓ |
| | Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40 | | | ✓ |
| | Transfer of Investment Property | | | ✓ |
| PAS 40 (Amended) | Investment Property | | | ✓ |
| PAS 41 | Agriculture | | | ✓ |
| | Amendment to PAS 41: Bearer Plants | | | ✓ |
| Philippine Interpretations | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | <i>Determining Whether an Arrangement Contains a Lease</i> | ✓ | | |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| IFRIC 6 | <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i> | | | ✓ |
| IFRIC 7 | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i> | | | ✓ |
| IFRIC 8 | <i>Scope of PFRS 2</i> | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2018 | | Adopted | Not Adopted | Not Applicable |
|--|---|----------------|--------------------|-----------------------|
| IFRIC 10 | <i>Interim Financial Reporting and Impairment</i> | | | ✓ |
| IFRIC 11 | PFRS 2 - Group and Treasury Share Transactions | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| IFRIC 15 | Agreements for the Construction of Real Estate* | | | ✓ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | | | ✓ |
| IFRIC 18 | Transfers of Assets from Customers | | | ✓ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| IFRIC 21 | Levies | | | ✓ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | | | ✓ |
| IFRIC 23 | Uncertainty over Income Tax Treatments | | | ✓ |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| SIC-12 | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| SIC-15 | Operating Leases - Incentives | | | ✓ |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| SIC-29 | Service Concession Arrangements: Disclosures | | | ✓ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| SIC-32 | Intangible Assets - Web Site Costs | | | ✓ |

XURPAS INC. AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

| | |
|---|--------------|
| Unappropriated Retained Earnings, beginning | ₱93,430,931 |
| Less adjustments: | |
| Treasury shares | — |
| Deferred tax assets | — |
| Fair value adjustments | — |
| Unappropriated Retained Earnings, as adjusted, beginning | 93,430,931 |
| Net Income based on the face of FS | (60,742,489) |
| Less: Non-actual/unrealized income net of tax | |
| Amount of provision for deferred tax during the year | (26,765,441) |
| Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) | — |
| Unrealized actuarial gain | — |
| Fair value adjustment (M2M gains) | — |
| Fair value adjustment of Investment Property resulting to gain adjustment due to deviation from PFRS/GAAP – gain | — |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | — |
| Add: Non-actual losses | |
| Depreciation on revaluation increment (after tax) | — |
| Adjustment due to deviation from PFRS/GAAP - loss | — |
| Loss on fair value adjustment of investment property (after tax) | — |
| Net Income Actual/Realized | (87,507,930) |
| Add (less): Other adjustments | |
| Dividend declarations during the period | — |
| Effects of prior period adjustments | — |
| Reversal of appropriation for treasury shares | — |
| Appropriations during the year | — |
| Unappropriated retained earnings, end available for dividend distribution | ₱5,923,001 |

XURPAS INC. AND SUBSIDIARIES

FINANCIAL RATIOS

| Financial Ratios | June 30, 2018 | December 31, 2017 |
|----------------------------------|----------------------|--------------------------|
| A. Current ratios | | |
| Current ratios | 50% | 54% |
| Quick ratios | 46% | 51% |
| B. Debt-to-equity ratios | 86% | 97% |
| C. Asset-to-equity ratios | 218% | 231% |
| D. Interest rate coverage ratios | (1,310%) | 281% |
| E. Profitability ratios | | |
| Net income margin | (22%) | 2% |
| Gross margin | 16% | 31% |
| Operating margin | (24%) | 12% |
| Return on total assets | (2%) | 1% |
| Return on equity | (4%) | 1% |

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

Key Business Updates

In the first half of 2018, the Group saw its revenues driven by the Enterprise Services and Other Services segments. Combined, these account for 69% of total revenues. Enterprise Services grew by ₱63.12 million or 20% from the first half 2017 to the first half 2018, while Other Services increased by ₱8.98 million or 27% in the same comparable period.

Since the first quarter of 2018, the changes in Globe’s system have affected the Group’s Mobile Consumer Services segment, particularly its Value Added Services (VAS) business. Likewise, Art of Click (AoC) has implemented a recovery plan for 2018 coming from its 2017 slowdown in revenues, however, with no significant results to date. In total, the Mobile Consumer Services segment fell 78% in the first half of 2018 to ₱187.31 million from ₱858.69 million in first half 2017. In effect, total revenues of the Group as of first half 2018 was at ₱609.47 million compared to ₱1.21 billion, a 50% drop over the comparable period in 2017.

Mobile Consumer Services

The Mobile Consumer Services segment was comprised of VAS and digital advertising revenues. In the first half of 2018, Art of Click comprised of 45% of the ₱187.31 million revenues posted for this segment. After the VAS system migration of Globe last first quarter 2018, the revenues from this segment dropped significantly from its previous levels in 2017. As of the first half of 2018, Mobile Consumer Services recorded ₱187.31 million or 31% of the total Group revenues.

Enterprise Services

Posting strong growth in the first half of 2018, Enterprise Services was at ₱379.42 million compared to ₱316.30 million in the first half of 2017. The increase in revenues was mainly from custom software development, software products, and recurring business from previous clients.

Other Services

Out of the three business segments, Storm had the largest year-on-year increase at 27% to ₱42.74 million in first half 2018 from ₱33.76 million in first half 2017. The growth is attributable to sustained businesses with large corporate clients and Storm’s larger employee base at 94,000 in 2Q2018 versus 66,000 in the last quarter of 2017.

Financial Summary

| Key Financial Data In PhP Millions | For the 6 months ended June 30 | | | | | |
|--|--------------------------------|-------------|-----------------|-------------|------------------|--------------------------|
| | 2018 | | 2017 | | Amount Change | % Increase (Decrease) |
| | Amount | Percentage | Amount | Percentage | | |
| Revenues | | | | | | |
| Mobile consumer services | 187.31 | 31% | 858.69 | 71% | (671.38) | -78% |
| Enterprise services | 379.42 | 62% | 316.30 | 26% | 63.12 | 20% |
| Other services | 42.74 | 7% | 33.76 | 3% | 8.98 | 27% |
| <i>Total Revenues</i> | 609.47 | 100% | 1,208.76 | 100% | (599.29) | -50% |
| Cost of Services | 483.84 | 79% | 771.26 | 64% | (287.43) | -37% |
| Cost of Goods Sold | 28.90 | 5% | 26.33 | 2% | 2.57 | 10% |
| Gross Profit | 96.74 | 16% | 411.17 | 34% | (314.43) | -76% |
| General and Administrative Expenses | 243.54 | 40% | 195.59 | 16% | 47.94 | 25% |
| Equity in Net Loss of Associates | 21.75 | 4% | 22.23 | 2% | (0.49) | -2% |
| Other charges (income) - net | 20.27 | 3% | (1.62) | 0% | 21.89 | -1348% |
| Income (Loss) Before Income Tax | (188.82) | -31% | 194.96 | 16% | (383.78) | -197% |
| Provision for (Benefit from) Income Tax | (45.17) | -7% | 40.24 | 3% | (85.41) | -212% |
| Net Income (Loss) | (143.65) | -24% | 154.73 | 13% | (298.37) | -193% |
| Other Comprehensive Income | 16.36 | 3% | 15.98 | 1% | 0.37 | 2% |
| Total Comprehensive Income (Loss) | (127.29) | -21% | 170.71 | 14% | (298.00) | -175% |

| | June 30, 2018 (Unaudited) Amount | Dec. 31, 2017 (Audited) Amount | Amount Change | % Increase (Decrease) |
|--------------------------|--|--------------------------------------|------------------|--------------------------|
| Total Assets | 5,774.96 | 5,810.18 | (35.22) | -1% |
| Total Liabilities | 2,291.06 | 2,454.68 | (163.62) | -7% |
| Total Equity | 3,483.89 | 3,355.50 | 128.39 | 4% |

Total revenues decreased by ₱599.29 million or 50% for the six-month period, from ₱1,208.76 million in the first half of 2017 to ₱609.47 million for the comparable period in 2018. The net income of the Group for the six-month period ended June 30, 2018, decreased by 193% (from ₱154.73 million in the first half of 2017 to a net loss of ₱143.65 million in the same period of 2018). Total comprehensive income over the same period decreased by 175% from ₱170.71 million as at June 30, 2017 to a net comprehensive loss of ₱127.29 million as at June 30, 2018. Group revenues were still mainly driven by enterprise services, comprising 62% of the total revenues.

The blended cost of services (aggregating the subsidiaries' costs) decreased by 37% from ₱771.26 million for the six-month period ended June 30, 2017 to ₱483.84 million for the comparable period in 2018. Cost of goods sold attributable to other services was ₱28.90 million for the six-month period ended June 30, 2018 compared to ₱26.33 million in the same period in 2017, an increase of 10% or ₱2.57 million. Gross profit margins on total revenues, for the period ended June 30, 2018 was at 16%, a decrease from the same period last year at 34%. Gross profit decreased by 76% from ₱411.17 million for the first half of 2017 to ₱96.74 million for the same period in 2018.

General and administrative expenses increased by 25%, from ₱195.59 million for the first half of 2017 to ₱243.54 million for the same period in 2018. Overall, the increase was mainly due to salaries and wages/outsourced services and additional taxes pertinent to the issuance of new shares. Also, included in the general and administrative expenses were increase in non-cash expenses such as depreciation and amortization related to capitalization costs.

The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱21.75 million for the six-month period ended June 30, 2018. Benefit from taxes during the first half of 2018 was ₱45.17 million or 212% lower than the same period in 2017 at ₱40.24 million. Overall, the net income for the Group decreased from ₱154.73 million for the first half of 2017 to a net loss of ₱143.65 million over the same period in 2018; a decrease of 193%.

Consolidated total assets as of June 30, 2018 amounted to ₱5,774.96 million, a decrease of 1% from ₱5,810.18 million as of December 31, 2017. Consolidated total liabilities decreased by 7% from ₱2,454.68 million as of December 31, 2017 to ₱2,291.06 million in June 30, 2018, due mainly to the decrease in

contingent liability. Consolidated total equity increased by 4% over the same period, from ₱3,355.50 million to ₱3,483.89 million. This was a result of the new issuance of common shares.

Segment Financial Performance

| As of June 30, 2018 In PhP Millions | Mobile Consumer Services | Enterprise Services | Other Services | Intersegment Adjustments | Consolidated |
|--|--------------------------------|------------------------|----------------|-----------------------------|-----------------|
| Revenue from services | 211.82 | 386.52 | 2.99 | (31.75) | 569.59 |
| Revenue from sale of goods | - | - | 39.88 | - | 39.88 |
| Total Service Revenues | 211.82 | 386.52 | 42.87 | (31.75) | 609.47 |
| Operating expenses | 288.86 | 404.19 | 90.51 | (27.29) | 756.27 |
| Equity in net loss of associates | - | - | - | 21.75 | 21.75 |
| Other charges (income) - net | 18.40 | 0.62 | 2.13 | (0.88) | 20.27 |
| Total Expenses | 307.25 | 404.81 | 92.64 | (6.42) | 798.29 |
| Operating Loss | (95.43) | (18.29) | (49.78) | (25.32) | (188.82) |
| Benefit from income tax | 22.21 | 4.19 | 14.78 | 4.00 | 45.17 |
| Net Loss | (73.22) | (14.10) | (35.00) | (21.33) | (143.65) |

As of June 30, 2018, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱211.82 million, ₱95.43 million and ₱73.22 million, respectively. These translated to 45% operating loss margin and 35% net loss margin. Enterprise services had an operating loss of ₱18.29 million and net loss of ₱14.10 million (net loss margin of 4%) from revenues of ₱386.52 million. Other services had revenues of ₱42.87 million, operating loss of ₱49.78 million and a net loss of ₱35 million.

Profitability

For the six-month period ended June 30, 2018 compared with the six-month period ended June 30, 2017

Revenues

The consolidated service revenues of the Group for the six-month period ended June 30, 2018 amounted to ₱609.47 million, a decrease of 50% from ₱1,208.76 million the same period of the previous year.

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

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

| | | |
|--|--|--|
| | employee benefits to other benefits which includes sale of goods | |
|--|--|--|

| In PhP Millions | For the 6 months ended June 30 | | | | | |
|--------------------------|--------------------------------|-------------|-----------------|-------------|-----------------|-------------|
| | 2018 | | 2017 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| Revenues | | | | | | |
| Enterprise services | 379.42 | 62% | 316.30 | 26% | 63.12 | 20% |
| Mobile consumer services | 187.31 | 31% | 858.69 | 71% | (671.38) | -78% |
| Other services | 42.74 | 7% | 33.76 | 3% | 8.98 | 27% |
| <i>Total Revenues</i> | 609.47 | 100% | 1,208.76 | 100% | (599.29) | -50% |

Revenues from enterprise services (which accounts for 62% of total revenues) increased by 20% in June 30, 2018, to ₱379.42 million from ₱316.30 million in June 30, 2017. On the other hand, revenues from the mobile consumer services segment for the six-month period ended June 30, 2018 amounted to ₱187.31 million, a decrease of 78% from the previous year's same period level of ₱858.69 million. This segment accounts for 31% of the total revenues. Other services booked revenues of ₱42.74 million in the first half of 2018, higher by 27% from the previous level at ₱33.76 million over the same period last year. The increase in the sales of Storm was attributed to organic growth in its client base and active platform users, which was 66,000 by end 2017 and currently at 94,000.

Expenses

| In PhP Millions | For the 6 months ended June 30 | | | | | |
|-------------------------------------|--------------------------------|-------------|---------------|-------------|-----------------|-------------|
| | 2018 | | 2017 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| Expenses | | | | | | |
| Cost of Services | 483.84 | 64% | 771.26 | 78% | (287.43) | -37% |
| Cost of Goods Sold | 28.90 | 4% | 26.33 | 3% | 2.57 | 10% |
| General and Administrative Expenses | 243.54 | 32% | 195.59 | 20% | 47.94 | 25% |
| <i>Total Expenses</i> | 756.27 | 100% | 993.18 | 100% | (236.91) | -24% |

The Group's consolidated expenses during the six-month period ended June 30, 2018 amounted to ₱756.27 million, a 24% decrease from the same period of the previous year at ₱993.18 million. For the first half of 2018, cost of services accounted for the bulk of expenses, totaling ₱483.84 million or 64% of the Group's consolidated expenses. For the same period in 2017, cost of services amounted to ₱771.26 million or 78% of overall expenses of ₱993.18 million.

Cost of Services

| In PhP Millions | For the 6 months ended June 30 | | | | | |
|---------------------------------------|--------------------------------|-------------|---------------|-------------|-----------------|-------------|
| | 2018 | | 2017 | | Amount Change | % Increase |
| | Amount | % | Amount | % | | |
| Cost of Services | | | | | | |
| Salaries, wages and employee benefits | 314.50 | 65% | 298.78 | 39% | 15.72 | 5% |
| Outsourced services | 71.99 | 15% | 324.58 | 42% | (252.58) | -78% |
| Royalty fees | 23.07 | 5% | 39.70 | 5% | (16.62) | -42% |
| Others | 74.27 | 15% | 108.21 | 14% | (33.94) | -31% |
| <i>Total Expenses</i> | 483.84 | 100% | 771.26 | 100% | (287.43) | -37% |

Cost of services totaling ₱483.84 million as of June 30, 2018, was mainly driven by expenses relating to (1) Salaries, wages, and employee benefits, (2) Outsourced services, and (3) Royalty fees, which accounted for 65%, 15%, and 5%, respectively. These costs were directly borne from rendering mobile consumer services, enterprise services, and other services to the Group's clients for the first half of 2018. Of the total cost of services for the period, more than half is attributed to Art of Click and Yondu.

Cost of Goods Sold

For six-month period ended June 30, 2018, cost of goods sold took up 4% of the Group's consolidated expenses, amounting to ₱28.90 million. This figure was an increase of 10% from its level at ₱26.33 million in June 30, 2017. The increase in cost of goods sold was directly attributable to the 27% increase in revenues of Storm Technologies. Costs related to the sale of goods from its flexible benefits and performance programs were appropriated as cost of goods sold.

General and Administrative Expenses

| In PhP Millions | For the 6 months ended June 30 | | | | | |
|--|--------------------------------|-------------|---------------|-------------|---------------|------------|
| | 2018 | | 2017 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| General and Administrative Expenses | | | | | | |
| Salaries, wages and employee benefits | 121.59 | 50% | 76.77 | 39% | 44.83 | 58% |
| Outsourced services | 16.32 | 7% | 11.66 | 6% | 4.66 | 40% |
| Rent | 19.33 | 8% | 16.32 | 8% | 3.01 | 18% |
| Depreciation and amortization | 14.42 | 6% | 9.11 | 5% | 5.31 | 58% |
| Others | 71.87 | 30% | 81.73 | 42% | (9.85) | -12% |
| <i>Total Expenses</i> | 243.54 | 100% | 195.59 | 100% | 47.94 | 25% |

General and administrative expenses relating to the Group's operations, for the first half of 2018 amounted to ₱243.54 million, higher by 25% compared to previous year's same period level of ₱195.59 million. Salaries, wages, and employee benefits was ₱121.59 million or 50% of the total general and administrative expenses (GAEX). The same expenses amounted to ₱76.77 million for the same period in 2017. The next biggest cost component in June 30, 2018 was rent amounting to ₱19.33 million or 8% of total GAEX.

Equity in Net Loss of Associates

The equity of the Group in the net loss of its associate companies for the six-month period ended June 30, 2018, amounted to ₱21.75 million; minimally improving at 2% lower than the ₱22.23 million net loss for the comparable period.

Other Charges (Income) – net

For the first half of 2018, the Group recognized other net charges amounting to ₱20.27 million. This account mainly pertains to foreign exchange gains and losses, interest expense and bank charges.

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

| In PhP Millions | For the 6 months ended June 30 | | | |
|---------------------------------|--------------------------------|---------------|-----------------|--------------|
| | 2018 | 2017 | Amount Change | % Increase |
| Income (loss) before tax | (188.82) | 194.96 | (383.78) | -197% |
| Depreciation and amortization | 31.35 | 24.63 | 6.72 | 27% |
| Interest expense | 12.02 | 0.73 | 11.30 | 1555% |
| <i>EBITDA</i> | (145.44) | 220.32 | (365.76) | -166% |

The Group's EBITDA decreased by 166% in June 30, 2018 to a negative EBITDA of ₱145.44 million from ₱220.32 million of the same period of the previous year. Depreciation and amortization of property and office equipment and intangible assets amounted to ₱31.35 million as at June 30, 2018 from ₱24.63 million as at June 30, 2017. Interest expense increased by 1555% from ₱0.73 million as of June 30, 2017 to ₱12.02 million for the same period in 2018.

Income (Loss) before Income Tax

The Group's net loss before taxes for the six-month period ended June 30, 2018 was ₱188.82 million. The net income (loss) before taxes for the Group declined by 197% or ₱383.78 million from the same period ended June 30, 2017, which posted a figure of ₱194.96 million.

Provision for (Benefit from) Income Tax

Benefit from income tax during the six-month period ended June 30, 2018 amounted to ₱45.17 million, compared to the same period in 2017, where provision for income tax was ₱40.24 million; a 212% decrease.

Net Income (Loss)

The Group posted a consolidated net loss of ₱143.65 million for the six-month period ended June 30, 2018, a decrease of 193% from the previous year's same period at ₱154.73 million.

Total Comprehensive Income (Loss)

As of June 30, 2018, the Group's total comprehensive loss amounted to ₱127.29 million, a decrease of 175% compared to total comprehensive income of ₱170.71 million as at June 30, 2017.

Financial Position

As of June 30, 2018 compared to December 31, 2017

Assets

Cash and Cash Equivalents

The Group's consolidated cash and cash equivalents amounted to ₱179.49 million for the six-month period ended June 30, 2018, a net decrease of 17% or ₱35.77 million from consolidated cash of ₱215.25 million as at December 31, 2017.

Accounts and Other Receivables

The Group's consolidated accounts and other receivables amounted to ₱689.42 million and ₱845.67 million as at June 30, 2018 and December 31, 2017, respectively, representing a decrease of ₱156.25 million. In June 30, 2018, trade receivables were valued at ₱773.11 million, whereby Yondu and Art of Click account for ₱461.13 million (60% of the total) and ₱299.39 million (39% of the total), respectively.

Available for Sale Financial Assets

As of June 30, 2018, the Group's available for sale financial assets amounted to ₱159.05 million, which remained unchanged from its previous level on December 31, 2017. These are investments in Pico Candy Pte. Ltd. (₱3.60 million), MatchMe Pte. Ltd. (₱52.50 million), Altitude Games Pte. Ltd. (₱28.86 million), E insights Pte. Ltd. (₱23.48 million), Social Light Inc. (₱6.00 million), Club Punta Fuego (₱0.38 million), and Zowdow Inc. (₱44.24 million).

Other Current Assets

The Group's consolidated other current assets totaled ₱87.39 million as of June 30, 2018, an increase of ₱29.45 million or 51% from its previous level on December 31, 2017 at ₱57.94 million. Prepaid expenses and creditable withholding taxes comprised majority of other current assets.

Investment in Associates

As of June 30, 2018, the Group's consolidated investment in associates amounted to ₱493.92 million, a 4% decrease from its figure of ₱515.66 million during December 31, 2017. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱26.63 million), MatchMe (₱46.88 million), SDI (₱9.73 million), and Micro Benefits Limited (₱410.68 million).

Property and Equipment

The Group's consolidated property and equipment was ₱72.91 million in June 30, 2018 vis-à-vis ₱76.15 million in December 31, 2017, or a decrease of 4%. This was the net result of adding ₱11.18 million worth of said assets and the depreciation expense amounting to ₱14.42 million for the six-month period ended June 30, 2018. Property and equipment mainly consisted of leasehold improvements, leased assets, office, information technology equipment, furniture, and fixtures.

Intangible Assets

Intangible assets of ₱3,870.05 million as at June 30, 2018 were recognized in relation to the Group's acquisitions and investments. The amortized amount was ₱16.31 million or 0.43% of the December 31, 2017 figure at ₱3,773.88 million. The major components are goodwill, customer relationship, developed software, and leasehold rights.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of June 30, 2018, goodwill is at ₱2,544.62 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of June 30, 2018, customer relationship is valued at ₱1,077.81 million.
- Developed software pertains to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment. As at June 30, 2018, developed software net book value is at ₱125.12 million. Amortization of developed software for the six-month period ended June 30, 2018 amounted to ₱16.31 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of June 30, 2018, leasehold rights net book value is at ₱10.03 million. Amortization of leasehold rights for the six-month period ended June 30, 2018 amounted to ₱1.50 million.

Pension Asset

The Group's recorded pension asset is at ₱0.31 million in June 30, 2018, which was unchanged from its levels in December 31, 2017.

Deferred Tax Assets – Net

The Group's consolidated net deferred tax assets level amounted to ₱172.64 million as at June 30, 2018, higher by 49% or ₱57.12 million vis-à-vis its December 31, 2017 level at ₱115.53 million.

Other Noncurrent Assets

Other noncurrent assets amounted to ₱49.77 million as of June 30, 2018. This figure is 1.90% lower than the value posted as of December 31, 2017 at ₱50.74 million. These are primarily rental and other deposits amounting to ₱23.03 million and ₱26.74 million, respectively.

Liabilities

Accounts and Other Payables

The Group's consolidated accounts and other payables valued at ₱424.85 million as at June 30, 2018 was a 14% or ₱68.26 million decrease from its December 31, 2017 figure of ₱493.11 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱170.52 million (₱99.77 million accounted for by Art of Click and ₱61.42 million from Yondu), payable to related parties at ₱98.77 million (from Xurpas, as advances from stockholders), deferred output VAT at ₱44.67 million, accrued expenses at ₱53.26 million (₱49.21 million from Yondu), taxes payable at ₱26.44 million, and other payables at ₱31.19 million.

Loans Payable

The Group recorded ₱442.52 million in current loans in June 30, 2018 and ₱377.42 million in December 31, 2017. This is mainly attributable to the loans of the Parent Company which are interest-bearing and short-term.

Income Tax Payable

The Group's consolidated income tax payable as at June 30, 2018 amounted to ₱1.63 million, an decrease of 84% from the December 31, 2017 figure of ₱10.08 million.

Liability for Written Put Option

Based on PAS 32, **Financial Instruments: Presentation**, "...a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." As such, a liability for the written put option is recognized which is equal to the present value of the amount payable upon exercise of the option is to be recognized. This amounts to ₱864.71 million, unchanged as of June 30, 2018 and December 31, 2017.

Payable to Former Shareholders of a Subsidiary

The Group recorded nil in payable to former shareholders of a subsidiary as at June 30, 2018 and ₱244.43 million as at December 31, 2017.

Other Current Liabilities

The Group's other current liabilities amounted to ₱173.59 million in June 30, 2018 compared to ₱77.17 million in 2017, an increase of 125%.

Finance Lease- net of current portion

Seer entered into a lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.83% to 1.12%. Seer's finance lease, net of current portion, is ₱0.61 million in June 30, 2018 and December 31, 2017.

Deferred Tax Liability - net

As of June 30, 2018, the deferred tax liability (net) was at ₱351.86 million, a decrease of 1% or ₱4.00 million from ₱355.86 million as of December 31, 2017. This is primarily the deferred tax liability on fair value adjustment on intangible assets.

Pension Liability

The accrued pension of the Group is at ₱31.30 million in June 30, 2018, which was unchanged from its levels in December 31, 2017.

Equity

Total Equity

The Group's total equity as of June 30, 2018 was at ₱3,483.89 million, a 4% increase from its December 31, 2017 level at ₱3,355.50 million. The net increase in total equity was a result of the issuance of common shares. Retained earnings decreased by ₱137.05 million or 42% from ₱322.73 million as at December 31, 2017 to ₱185.68 million in June 30, 2018.

Liquidity and Capital Resources

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

Cash Flows

| In PhP Millions | For the 6 months ended June 30 | |
|---|---------------------------------------|---------------|
| | 2018 | 2017 |
| | Amount | Amount |
| Net cash provided by (used in) Operating Activities | (117.12) | 122.17 |
| Net cash provided by (used in) Investing Activities | (10.85) | 74.09 |
| Net cash provided by (used in) Financing Activities | 65.10 | (110.35) |
| Effect of foreign currency exchange changes in cash | 27.10 | 15.99 |
| Net increase in cash | (35.77) | 101.90 |
| Cash at beginning of period | 215.25 | 428.52 |
| Cash at end of period | 179.49 | 530.42 |

Cash Flows Used in Operating Activities

For the first half of 2018, operating loss of ₱121.87 million was coupled with the corresponding decrease in account receivables and account payables for a resulting ₱81.97 million net cash used in operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱117.12 million.

Cash Flows Used in Investing Activities

The Group's consolidated cash flows used in investing activities for the first half of 2018 was ₱10.85 million compared to ₱74.09 million provided in the same period of 2017. The net cash used in investing activities was mainly attributable to the acquisitions of property and equipment: (i) addition of leasehold improvements as a result of the renovation of a new office space rented by the Parent Company, and (ii) acquisition of computer and IT equipment as part of Yondu and Storm's equipment standardization program.

Cash Flows Provided by Financing Activities

The Group's consolidated net cash flow provided by financing activities for the six-month period ended June 30, 2018 was ₱65.10 million; compared to ₱110.35 million used as of June 30, 2017. The cash flow provided by financing activities were mainly from the issuance of common shares.

Capital Expenditure

The Group's capital expenditures for the six-month period ended June 30, 2018 and the year ended December 31, 2017 amounted to ₱11.81 million and ₱27.50 million, respectively.

| Key Financial Data In PhP Millions | June 30, 2018 Additions | December 31, 2017 Additions |
|---|------------------------------------|--|
| Office Equipment | 0.54 | 3.08 |
| IT Equipment | 10.01 | 18.03 |
| Furniture and Fixtures | 0.04 | 0.95 |
| Leasehold Improvements | 1.21 | 4.33 |
| Leased Asset | - | 1.11 |
| | 11.81 | 27.50 |

Commitments and Contingent Liabilities

The Group recorded payable to former shareholders of a subsidiary at nil and ₱244.43 million as at June 30, 2018 and December 31, 2017, respectively. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized.

Key Performance Indicators

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

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

| In Percentage | For the six-month periods ended June 30 | | For the years ended December 31 | |
|------------------------------|--|-------------|---------------------------------|--------|
| | 2018 | 2017 | 2017 | 2016 |
| Liquidity Ratios | | | | |
| Current Ratio | 50% | 92% | 54% | 105% |
| Quick Ratio | 46% | 87% | 51% | 102% |
| Asset-to-Equity Ratio | 218% | 220% | 231% | 219% |
| Profitability Ratios | | | | |
| Net Income Margin | -22% | 9% | 2% | 11% |
| Gross Margin | 16% | 38% | 31% | 41% |
| Operating Margin | -24% | 18% | 12% | 24% |
| Return on Total Assets | -2% | 2% | 1% | 7% |
| Return on Equity | -4% | 4% | 1% | 14% |
| Debt Ratios | | | | |
| Debt-to-Equity Ratio | 0.86x | 0.86x | 0.97x | 0.91x |
| Interest Coverage Ratio | -13.10x | 269.29x | 2.81x | 11.84x |

Current Ratios

Current Ratio and Quick Ratio in the six-month period ended June 30, 2018 were 50% and 46%, respectively, a decrease from their respective 54% and 51% figures during the full year of 2017. The decrease in both ratios was primarily from the significant increase in current liabilities and minimal increase of current assets of the Group for that period.

Asset-to-Equity Ratio

The decrease in the asset-to-equity ratio from 231% in December 31, 2017 to 218% in June 30, 2018 resulted from the increase in equity due to additional issuance of common shares and decrease in total assets, particularly from accounts receivables.

Profitability Ratios

Profitability margins decreased from December 31, 2017, as a result of business combination and expenses related to the Group's investments and acquisitions. The decrease in Gross Profit Margin (16%), Net Income Margin (-22%), Operating Margin (-24%), Return on Total Assets (-2%) and Return on Equity (-4%) was a result of the increase in overall expenses as a direct result of the Parent Company's expansion and acquisitions: the absorption of operational expenses of the acquired subsidiaries, expansion of operations offshore, and salaries and wages paid to the Group's new employees for its organizational build-up program.

Debt Ratios

Debt to Equity in June 30, 2018 was at 0.86x compared to 0.97x as at December 31, 2017. The decrease in the gearing ratio was attributed to the higher total equity value in June 30, 2018 compared to the previous year. Interest coverage ratio in June 30, 2018 was at -13.10x compared to 2.81x in December 31, 2017.

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

Current Ratios

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

Asset-to-equity Ratio

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

Profitability Ratios

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

Debt Ratios

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

Other Disclosures:

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

continuing operations.

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