xurpas

## NOTICE OF SPECIAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the special meeting of stockholders of Xurpas Inc. will be held at the Makati Sports Club, L.P. Leviste Corner Gallardo Streets, Salcedo Village, Makati City on March 4, 2020 at 9:00 o'clock in the morning with the following:

### AGENDA

1. Call to Order
2. Certification of Notice and Quorum
3. Review and Approval of Minutes of the Previous Meeting held on November 8, 2019
4. Discussion on the purchase of Wavemaker US Fund Management Holdings, LLC.
5. Issuance of up to 1,706,072,261 new common shares ("Subscription Shares") from the available authorized capital stock
6. Approval of the Application for Additional Listing of the Subscription Shares with the Philippine Stock Exchange
7. Election of Independent Directors
8. Other Matters
9. Adjournment

Only stockholders of record at the close of business day on **December 13, 2019** are entitled to notice of, and to vote at, this meeting.

Makati City, January 27, 2020

**MARK S. GORRICETA**
*Corporate Secretary, Chief Legal Officer and Chief Compliance Officer*

**We are not soliciting your proxy.** However, if you will not attend the meeting but wish to be represented, you may accomplish the proxy form that will be sent to you and submit the same on or before February 26, 2020 to the Office of the Corporate Secretary at 7th Floor Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City. Validation of proxies will be held on February 28, 2020 at 9:00 am at the Office of the Corporate Secretary.

For Stockholders whose shareholdings are lodged with the Philippine Central Depository, please secure an original certification from your respective brokers. Kindly bring the said original certification on the date of the meeting.

Xurpas Inc.'s Notice and Agenda, Definitive Information Statement, Proxy and other documents required for the Special Stockholders Meeting to be distributed to its stockholders of record can be downloaded by:

1. Accessing through the following link: https://xurpasgroup.com/corporate-governance/annual-stockholders-meeting-documents/
2. By requesting for soft or hard copies through an email request to: ir@xurpas.com or by calling us at +(632) 8889 6467.

## EXPLANATION OF AGENDA ITEMS

***Certification on Notice and Quorum***

The Corporate Secretary shall certify the date the notice of the meeting was sent to all stockholders of record and the date of the publication of the notice in a newspaper of general circulation. The Corporate Secretary shall also certify the existence of a quorum.

***Approval of the Minutes of the Previous Meeting***

The minutes of the meeting held on November 8, 2019 are attached in the Information Statement and posted at the company website. Copies of the said meeting shall also be distributed to the stockholders before the meeting.

***Discussion on the purchase of Wavemaker US Fund Management Holdings, LLC.***

On November 6, 2019, the board of directors (the "Board") of Xurpas Inc. approved the acquisition of 100% of a holding company - Wavemaker US Fund Management Holdings, LLC.

Wavemaker US Fund Management Holdings, LLC owns majority interest in the following fund management entities: Siemer Ventures LLC, Wavemaker Partners LLC, Wavemaker Management LLC and Wavemaker Global Select, LLC.

***Issuance of up to 1,706,072,261 new common shares ("Subscription Shares") from the available authorized capital stock***

On November 6, 2019, the Board of Xurpas Inc. approved the issuance of 1,706,072,261 common shares ("Subscription Shares") in favor of Eric Manlunas, Paul Santos and James Jordan at a subscription price of Php0.10 per share (par value). The shares will be issued out of the unissued authorized capital stock of Xurpas.

***Approval of the Application for Additional Listing of the Subscription Shares with the Philippine Stock Exchange***

The issuance of the Subscription Shares will need to be listed with the Philippine Stock Exchange. The Board shall request for the stockholders' approval on the listing of the Subscription Shares to be issued to Eric Manlunas, Paul Santos and James Jordan.

***Election of Independent Directors***

Mr. Bartolome Silayan, Jr. and Ms. Imelda C. Tiongson have been nominated as Independent Director for the ensuing year. The election of directors shall be by ballot and cumulative voting is allowed.

Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares outstanding in his name at the time of the election. The stockholder may vote his shares for as many persons as there are directors to be elected.

**PROXY FORM**

The undersigned, being a stockholder of **Xurpas Inc.** (the "**Corporation**"), constitutes and appoints __________________________, or in his/her absence, the Chairman of the stockholders' meeting, to be the undersigned's proxy, to represent and vote all shares registered in the name of, and beneficially owned by, the undersigned at the special meeting of the stockholders of the Corporation scheduled on ________, at 9:00 a.m., at Makati Sports Club, L.P. Leviste corner Gallardo Streets, Salcedo Village, Makati City, and at all adjournments thereof, for the following matters:

| | Matters for Approval | For | Against | Abstain |
|---|---|---|---|---|
| 1. | Approval of Minutes of Previous Meeting held on November 8, 2019 | | | |
| 2. | Approval of the Application for Additional Listing of up to 1**,706,072,261** primary shares from the available authorized capital stock | | | |
| 3. | Election of Independent Directors | | | |
| | **a.** Bartolome Silayan, Jr | | | |
| | **b.** Imelda C. Tiongson | | | |

IN WITNESS WHEREOF, the undersigned executes this proxy this ____________________.

*Signature of Stockholder /Authorized Signatory:* ____________________________
*Name of Stockholder:* ____________________________
*No. of Common Shares:* ____________________________
*Date:* ____________________________

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **FEBRUARY 26, 2020** AT 7TH FLOOR CAMBRIDGE CENTRE BUILDING 108 TORDESILLAS ST., SALCEDO VILLAGE, MAKATI CITY.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND APPROVAL OF THE MATTERS STATED ABOVE.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSDIERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

**VALIDATION OF PROXIES SHALL BE HELD ON FEBRUARY 28, 2020 AT THE OFFICE OF THE CORPORATE SECRETARY. NOTARIZATION OF THIS PROXY IS NOT REQUIRED.**

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 20-IS**
**INFORMATION STATEMENT PURSUANT TO SECTION 20**
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   [ ] Preliminary Information Statement

   [✓ ] Definitive Information Statement

2. Name of Registrant as specified in its charter **XURPAS INC.**

3. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **A200117708**

5. BIR Tax Identification Code **219-934-330**

6. **7th Floor Cambridge Centre Building 108 Tordesillas St., Salcedo Village Makati City, 1227**
   Address of principal office Postal Code

7. Registrant's telephone number, including area code **(02) 8889-6467**

8. Date, time and place of the meeting of security holders

   **Date:** March 4, 2020
   **Time:** 9:00 a.m.
   **Place:** Makati Sports Club, L.P. Leviste Corner Gallardo Streets
   Salcedo Village, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders **February 10, 2020**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| **Common Shares** | **1,871,830,210** |

12. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes [✓] No [ ]

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

    **1,797,700,660 common shares of the Corporation are listed with the Philippine Stock Exchange.**

## PART I.

## INFORMATION REQUIRED IN INFORMATION STATEMENT

### A. GENERAL INFORMATION

Item 1. **Date, time and place of meeting of security holders.**

The Special Stockholders' Meeting of Xurpas Inc. ("**Xurpas**" or the "**Corporation**") will be held on the following date at the following address:

| | |
|---|---|
| Date: | **March 4, 2020** |
| Time: | **9:00 a.m.** |
| Place: | **Makati Sports Club, L.P. Leviste Corner Gallardo Streets Salcedo Village Makati City** |
| Complete mailing address of registrant: | **7F Cambridge Centre Building, 108 Tordesillas St. Salcedo Village, Makati City** |
| Approximate mailing date Of this statement: | **February 10, 2020** |

Item 2. **Dissenters' Right of Appraisal**

There are no corporate matters or actions that will be taken up at the meeting that may give rise to a possible exercise by stockholders of their appraisal rights under Section 81 of the Corporation Code of the Philippines.

*Section 80*, *Title X: Appraisal Right of the Revised Corporation Code of the Philippines*, provides that any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

(a) in case of any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or authorizing preferences in any respect superior to those of outstanding shares of any class, or extending or shortening the term of corporate existence;

(b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;

(c)in case of merger or consolidation; and

(d) in case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

This appraisal right may be exercised by any stockholder who has voted against the proposed corporate action, by making a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken: provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right.

The Corporation shall apply and observe the rules identified in Title X of the Revised Corporation Code on exercise of Appraisal Right.

Item 3. **Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

a. The incumbent directors and executive officers, those nominated for election as independent director, and their associates, have no substantial interest in any matter to be acted upon at the meeting other than election to the office.

b. No director has informed the Corporation of his opposition to any matter to be acted upon at the meeting.

## B. CONTROL AND COMPENSATION INFORMATION

**Item 4. Voting Securities and Principal Holders Thereof**

a. **Class of voting shares**

| | | |
|---|---|---|
| Number of outstanding shares as of December 13, 2019 | : | **1,871,830,210 common shares** |
| Number of votes per share | : | **One vote each share of stock held as of record date of December 13, 2019.** |

b. **Record date**

All stockholders of record as of December 13, 2019 are entitled to notice and to vote at the meeting.

c. **Election of directors and cumulative voting rights**

The election of independent directors should be by ballot and cumulative voting is allowed.

Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares outstanding in his name at the time of the election. The stockholder may vote his shares for as many persons as there are directors to be elected.

The stockholder may also cumulate his shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he may see fit; provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected. There is no condition precedent to the exercise of the stockholders' right to cumulative voting. The Corporation is not soliciting any proxy or any discretionary authority to cumulate votes.

**D. Security ownership of certain record and beneficial owners and management**

1. **Security ownership of certain record and beneficial owners**

As of January 27, 2020, the Corporation is not aware of any person who is directly or indirectly the record or beneficial owner of more than 5% of the Corporation's capital stock except as set forth below:

| Title of Class | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares and Nature of Ownership (Direct or Indirect) | Percent of Class |
|---|---|---|---|---|---|
| Common | **Nico Jose S. Nolledo** Urdaneta Tower, Ayala Avenue, Makati City (Chairman and Chief Executive Officer) | Nico Jose S. Nolledo | Filipino | 322,226,622[1] (Direct and Indirect) | 17.21% |
| Common | **Fernando Jude F. Garcia** North Lane, Jem 2 Subd., Tandang Sora, Quezon City (Director, Chief Technology Officer and Treasurer) | Fernando Jude F. Garcia | Filipino | 375,073,960 (Direct) | 20.04% |
| Common | **Raymond Gerard S. Racaza** One Salcedo Place, Jaime Velasquez St., Salcedo Village, Makati City | Raymond Gerard S. Racaza | Filipino | 375,765,960 (Direct) | 20.07% |
| Common | **PCD Nominee Corp. (Filipino)** | PCD participants acting for themselves and for their customers[2] | Filipino | 546,174,154[3] (Direct) | 29.18% |
| Common | **PCD Nominee** | PCD participants | Non-Filipino | 251,916,971 (Direct) | 13.46% |

[1] This includes Xurpas shares registered in the name of Eden International Holdings Pte. Ltd.
[2] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. The Corporation has no record relating to the power to decide how the shares held by PCD are to be voted.
[3] List of Stockholders issued by the Stock Transfer Agent reflects that PCD Nominee (Filipino) holds 1,415,768,303 common shares in Xurpas Inc. We revised this to remove shares in the name of Mr. Nico Jose S. Nolledo, Mr. Fernando Jude F. Garcia, Mr. Raymond Gerard S. Racaza, and Xurpas' Treasury Shares.

| | | | | | |
|---|---|---|---|---|---|
| | **Corp. (Non-Filipino)** | acting for themselves and for their customers[4] | | | |

As of December 31, 2019, 15.57% of the outstanding shares of the Corporation are held by foreigners.[5]

2. **Security ownership of directors and management**

As of January 25, 2020, the Corporation's directors and executive officers own the following number of shares:

| Title of Class | Name of Owner and Position | Citizenship | No. of Shares and Nature of Ownership (Direct or Indirect) | Percent of Class |
|---|---|---|---|---|
| Common | **Nico Jose S. Nolledo** Chairman | Filipino | 322,226,622[6] (Direct and Indirect) | 17.21% |
| Common | **Alexander D. Corpuz** Director, President, Chief Finance Officer and Chief Information Officer | Filipino | 1,000 (Direct) | Nil |
| Common | **Fernando Jude F. Garcia** Director, Chief Technology Officer and Treasurer | Filipino | 375,073,960 (Direct) | 20.04% |
| Common | **Mercedita S. Nolledo** Director | Filipino | 2,378,338 (Direct) | 0.13% |
| Common | **Wilfredo O. Racaza** Director | Filipino | 1,060 (Direct) | Nil |
| Common | **Jonathan Gerard A. Gurango** Independent Director | Filipino | 169,399 (Direct) | 0.01% |
| **Total (Directors and Officers as a Group)** | | | 699,850,379 | 37.39% |

3. **Voting Trust Holders of 5% or More**

The Corporation is not aware of any person holding 5% or more of the Corporation's shares under a voting trust or similar agreement.

4. **Changes in Control**

There was no change of control in the Corporation during the year. There are no existing provisions in the Corporation's Articles of Incorporation or By-Laws that will delay, defer, or in any manner prevent a change in control of the Corporation.

The Company has executed a Memorandum of Agreement last November 6, 2019 wherein Eric Manlunas, Paul Santos and James Jordan will be subscribing to new common shares in Xurpas Inc.

[4] List of Stockholders issued by the Stock Transfer Agent reflects that PCD Nominee (Non-Filipino) holds 291,086,734 common shares in Xurpas Inc. We revised this to remove shares in the name of Eden International Holdings Pte. Ltd.
[5] This includes all Xurpas Shares registered in the name of Eden International Holdings Pte. Ltd.
[6] This includes all Xurpas Shares registered in the name of Eden International Holdings Pte. Ltd.

equivalent to 47.68%. The Memorandum of Agreement provides that considering the proposed shareholding of the subscribers, they may appoint two (2) of out of the eight (8) board seats of the Company. We note however that the Company does not foresee any change in control as of date.

Item 5. **Directors and Executive Officers**

(i) **Board of Directors, Independent Directors and Executive Officers**

On November 8, 2019, the Corporation held its 2019 Annual Stockholders' Meeting wherein the six (6) directors were elected as such for the ensuing year. Pursuant to the Corporation's by-laws that allows for eight (8) board seats, which includes three (3) independent directors, the stockholders will need to appoint two (2) additional independent directors. Please see below names of elected directors, and officers, and those which are nominated as Independent Directors**:**

| Directors | Nationality | Position | Age | Year Position was Assumed |
|---|---|---|---|---|
| Nico Jose S. Nolledo | Filipino | Chairman | 43 | 2001 |
| Alexander D. Corpuz | Filipino | Executive Director (President, Chief Finance Officer and Chief Information Officer) | 53 | 2019 |
| Fernando Jude F. Garcia | Filipino | Executive Director (Treasurer and Chief Technology Officer) | 46 | 2001 |
| Mercedita S. Nolledo | Filipino | Non-Executive Director | 78 | 2001 |
| Wilfredo O. Racaza | Filipino | Non-Executive Director | 71 | 2001 |
| Jonathan Gerard A. Gurango | Filipino | Independent Director | 62 | 2014 |
| Imelda C. Tiongson | Filipino | Independent Director | 52 | For election during the 2020 Special Stockholders' Meeting |
| Bartolome Silayan, Jr. | Filipino | Independent Director | 53 | For election during the 2020 Special Stockholders' Meeting |
| Mark S. Gorriceta | Filipino | Corporate Secretary, Chief Legal Officer and Chief Compliance Officer | 41 | 2014 |

**Background Information**

**Nico Jose S. Nolledo**, Filipino, 43, has been the Chairman and Director of the Corporation since 2001. He is the first Filipino Entrepreneur chosen by the Endeavour network. He is also the Ernst and Young's 2015 Philippine Entrepreneur of the year and was chosen as one of The Outstanding Young Men ("TOYM") in the Philippines in 2015. Mr. Nolledo holds a Bachelor of Science degree in Management from Ateneo de Manila University.

**Alexander D. Corpuz**, Filipino, 53, was appointed as Director and President of the Corporation effective February 1, 2019. He has also been the Corporation's Chief Finance Officer since 2014 and Chief Information Officer since 2018. Mr. Corpuz has 29 years of experience in the field of finance, ten years of which was in investment and commercial banking. He was Vice President of Bank of America in 2001, before serving as CFO for Liberty Telecoms, Information Gateway, Mañosa Group of Companies and Hatchd Inc. Mr. Corpuz holds a Bachelor of Science in Business Administration degree from University of the Philippines, Diliman, Cum Laude. He obtained his Masters in Business Management from the Asian Institute of Management, Makati City. He is a member of the Financial Executives Institute of the Philippines (FINEX).

**Fernando Jude F. Garcia**, Filipino, 46, has been the Chief Technology Officer and Director of the Corporation since 2001. He was also appointed as Treasurer effective February 1, 2019. He also served as Corporate Secretary of the Corporation until December 2014. He created the Corporation's Griffin Platform, the mobile consumer content gateway and platform for all of the Corporation's mobile consumer content products and services. He also created the Corporation's modular middleware system that can easily integrate with any modern billing gateway. He is the chief engineer responsible for the Corporation's software architecture and systems integration. Examples of such systems and protocols are the following: SMS (CIMD2/EMI-UCP/SMPP), MMS (EIAF/MM7), Voice Services (SIP), Billing/IN (Diameter/UCIP/ParlayX2.1), Security (IPSEC), Publish-subscribe Systems and Video Streaming (RTMP/HLS) and blockchain technology (BTC/ETH). He is also responsible for architecting the Corporation's fully Cloud-based system infrastructure. Before founding the Corporation, he was a software developer in iAyala. Mr. Garcia holds a Bachelor of Science degree in Applied Physics from the University of the Philippines in Diliman, Quezon City.

**Wilfredo O. Racaza**, Filipino, 71, has been a Director of the Corporation since 2001.Mr. Racaza has 49 years of marketing and finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. He previously worked as an insurance executive in Manulife Financial Philippines for 33 years. He is a Registered Financial Consultant (Graduated Cum Laude in May 2015). He has garnered numerous accolades and multiple awards such as Branch of the Year recognitions and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to Present. Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University (Ateneo de Cagayan) in Cagayan de Oro City.

**Mercedita S. Nolledo**, 78, Filipino, has been a Director of the Corporation since 2001. Atty. Nolledo is currently a director of Bank of the Philippine Islands, BPI Family Savings Bank and BPI Capital Corporation, Anvaya Golf and Nature Club, Inc., BPI Asset Management & Trust Corporation and Michigan Holdings, Inc. She is the Chairman of BPI Investment Management Corporation. She is currently an independent director of D&L Industries, Inc. She is a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. She has served as a director of Cebu Holdings, Inc. from 1993 to 2006 and of Ayala Corporation from 2004 to 2010. Atty. Nolledo was formerly Corporate Secretary and General Counsel of the Ayala Group of Companies and the Senior Managing Director of the Ayala Corporation. She served as Executive Vice President, director and Corporate Secretary of Ayala Land, Inc. and as the firm's Treasurer. Atty. Nolledo placed second in the Certified Public Accountant exams in 1960 and also placed second in the 1965 bar exams. She holds a Bachelor of Science degree in Business Administration, magna cum laude, from the University of Philippines. Atty. Nolledo holds a Bachelor of Laws degree, cum laude, from the University of the Philippines.

**Jonathan Gerard A. Gurango**, 62, Filipino, has been an independent director of the Corporation since 2014. Mr. Gurango has a solid track record in forming and running successful software companies. He founded Match Data Systems (MDS) in Seattle, USA in 1987, MDS Philippines in 1991, and MDS Australia in 1996. In 1999, he sold MDS to Great Plains Software, which was acquired by Microsoft in 2001. Mr. Gurango served as the Asia Pacific Regional Director for Microsoft Business Solutions, before he left in 2003 to form Gurango Software. In 2007, he was inducted into the Hall of Fame for Microsoft's Most Valuable Professionals, in recognition of his mastery of software technology and business. In 2006, the Philippine Center for Entrepreneurship acknowledged him as one of the country's Ten Most Inspiring Technopreneurs. In addition to leading Gurango Software as the most successful Microsoft Dynamics partner in the Philippines, he has co-founded several other software start-ups such as SPRING.ph, and was the President of the Philippine Software Industry Association from 2013 to 2014. Mr. Gurango studied Industrial Engineering at the University of the Philippines, Diliman, Quezon City. He also studied Electrical Engineering at the University of Washington, Seattle, Washington, USA.

**Imelda C. Tiongson,** 52, Filipino, has been nominated as Independent Director. She is currently the President of Opal Portfolio Investments (SPV-AMC) Inc. She is currently an independent director of Fin Tech Global Resources Inc. and Ovo Worldwide Trading Corporation, and a Trustee of Fintech Philippines Association. Ms. Tiongson is also involved in several organizations; She is a Trustee of the Institute of Corporate Directors, Vice Chair of the Governance Committee of the Management Association of the Philippines, and the Head of Technoethics and Chair of Governance for Fintech Alliance. She is also a lecturer for Risk Management for International Finance Corporation (*an entity affiliated with the World Bank Group*) and Institute of Corporate Directors (ICD). She is also a lecturer in Ateneo Graduate School of Business - Center for Continuing Education.

She previously worked as a Senior Lending Officer in National Australia Bank and as Senior Vice President of Philippine National Bank. She was also a director of Vitarich Corporation and a board advisor of East Asia Power Corporation.

Ms. Tiongson also participated in the groups that drafted the Revised Corporation Code which was enacted in 2019 and the Financial Rehabilitation and Insolvency Act of 2010.

Ms. Tiongson obtained her Bachelor of Business in Accountancy from Royal Melbourne Institute of Technology. She also completed a Master Class on Remedial in Asian Institute of Management (AIM), Master Class in Blockchain/Cryptocurrency facilitated by Terrapinn and Master Class in Risk/Audit conducted by Worldbank ICD.

**Bartolome Silayan Jr.,** 53, Filipino has been nominated as Independent Director. He is currently the President of Phoenix One Knowledge Solutions Inc. ("Phoenix One"), a technology corporate training company which he started in 2005. He is also the President of Cafisglobal Inc, a boutique software services company serving clients in Australia. Prior to Phoenix One, he also founded Mind Stream Inc. in 2001, the franchise holder of NIIT, the largest technology education company from India. Before he became an entrepreneur, he was the Philippine Country Head of The Pillsbury company in 1997. He worked in Hongkong and China in 1994 as Marketing Manager for the Quaker Oats company handling the Gatorade brand. He finished BS Business Management from Ateneo de Manila University and obtained his MBA from Northwestern University's Kellogg school of management.

**Mark S. Gorriceta,** 41, Filipino, has been the Corporate Secretary and Chief Legal Officer of the Corporation since 2014. He was also appointed as Chief Compliance Officer of the Corporation in 2018. Atty. Gorriceta has been in the practice of law for fourteen years. He acts as legal counsel to several other listed companies, its subsidiaries or affiliates. Atty. Gorriceta also serves as Chief Legal Counsel and/or Corporate Secretary to several leading online and tech companies in the Philippines. He is the Managing Partner and heads the Corporate Group of Gorriceta Africa Cauton & Saavedra. A member of the Philippine Bar since 2005, he holds a Bachelor of Arts, Political Science degree from the Ateneo de Manila University. He also attended certificate courses in Finance at the Asian Institute of Management in Makati City.

**Nomination of Independent Directors**

The Corporation's Nomination Committee pre-screened and accepted the nominations for the following independent directors: Mr. Bartolome Silayan, Jr. and Ms. Imelda C. Tiongson.

The Nomination Committee evaluated the qualifications of the nominees and prepared the final list of nominees in accordance with the criteria provided in the Securities Regulation Code ("SRC"), the Corporation's Manual on Corporate Governance and the Corporation's By-Laws.

Only nominees whose names appear on the final list of candidates are eligible for election as directors. No nominations will be entertained or allowed on the floor during the special stockholders' meeting.

**Involvement in Certain Legal Proceedings**

There are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which Mr. Bartolome Silayan Jr. or Ms. Imelda C. Tiongson is a party.

(ii) **Certain Relationships and Related Transactions**

In the conduct of its day-to-day business, the Corporation engages in related party transactions such as service and licensing agreements, always at arms-length and taking into consideration the best interest of the Corporation.

The Corporation has secured loans from its key shareholders. On February 20, 2019, the board of directors approved the execution of a loan agreement wherein the key shareholders of the Corporation agreed to extend an aggregate of Php150 million loan to be used to fund enterprise projects and for general corporate purposes.

See Note 21 of the Corporation's 2019 3rd Quarter Consolidated Financial Statements for a detailed discussion of the related party transactions entered into by the Company.

(iii) **Involvement in Certain Legal Proceedings**

There are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of the securities or commodities law for the past five years to which the Corporation or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative agency.

As of date of this report, the Corporation is not a party to any litigation or arbitration proceedings of material importance, which could be expected to have a material adverse effect on the Corporation or on the results of its operations. No litigation or claim of material importance is known to be pending or threated against the Corporation or any of its properties.

Item 6. **Compensation of Directors and Executive Officers**

### a. Executive Compensation.

| Name | Position | | Salary | Estimated Bonus | Other | Total |
|---|---|---|---|---|---|---|
| Raymond Gerard S. Racaza | President & Chief Executive Officer[7] | | | | | |
| Alexander D. Corpuz | Chief Finance Officer & Chief Information Officer | | | | | |
| Jose Vicente T. Colayco | Treasurer & Chief Operating Officer[8] | | | | | |
| Alfonso A. Tagaysay | Chief Marketing Officer[7] | | | | | |
| Total | | 2020 (Projected) | ₱8,764,000.00 | N/A | N/A | ₱8,764,000.00 |
| | | 2019 | 6,163,838.25 | N/A | N/A | ₱6,163,838.25 |
| | | 2018 | 12,584,516.66 | N/A | N/A | 12,584,516.66 |
| | | 2017 | 18,993,973.75 | N/A | N/A | 18,993,973.75 |
| | | 2016 | 19,878,809.86 | N/A | N/A | 19,878,809.86 |
| | | 2015 | 29,390,786.72 | N/A | N/A | 29,390,786.72 |

The total annual compensation consists of basic pay and other taxable income. The substantial decrease in salaries can be attributed to the resignation of certain officers, specifically, Mr. Jose Vicente T. Colayco and Mr. Alfonso A. Tagaysay. Their previous salaries did not form part of the 2019 projections for Executive Compensation.

The Corporation's executive officers have no other remuneration aside from the compensation described above.

### b. Compensation of Directors

The directors receive a standard per diem of Php20,000.00 for every meeting attended, which may be adjusted, as decided by the Personnel and Compensation Committee. Non-executive directors have no compensation aside from their per diem.

### c. Other Arrangements

The Corporation has no other existing arrangements such as bonus, profit sharing, stock options, warrants, rights, or other compensation plans or arrangements with its directors. The Corporation has applied for an Employee Stock Option Plan, approval of which is currently pending with the Securities and Exchange Commission and the Philippine Stock Exchange. The details are as follows:

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[7] Mr. Raymond Gerard S. Racaza resigned as President and Chief Executive Officer of the Parent Company effective January 30, 2019.

[8] On September 5, 2018, the Board of Directors of the Parent Company approved the reassignment of Mr. Jose Vicente Colayco and Mr. Alfonso Tagaysay to ODX Pte. Ltd, a wholly owned subsidiary of Xurpas. As such, Messrs. Colayco and Tagaysay resigned as Director, Treasurer and Chief Operating Officer and as Chief Marketing Officer, respectively, of Xurpas effective September 6, 2018.

<table>
<tr><td>Title and Amount of Securities</td><td>A minimum of 0.5% to a maximum of 1.5% of the outstanding capital stock of the Corporation’s common share are reserved for the Plan, but in no case shall the aggregate number of shares represented by outstanding options exceed 1% of fully-diluted shares, inclusive of shares represented by such outstanding options.</td></tr>
<tr><td>Price</td><td>Not in any case be less than the Fair Market Value (“FMV”) of the Corporation’s shares, or such lower purchase price as may be allowed under the rules of the PSE or the SEC subject to adjustment in case of change in the FMV of the Corporation’s shares by virtue of stock dividends, stock splits or any of the events stated in Article 5.2 of the Plan. However, in no case shall it be less than the subscription price of ₱3.97 at which the Corporation’s shares were initially offered for sale to the public in December 2014.</td></tr>
<tr><td>Option Expiry Date</td><td>3rd Year anniversary of the option grant date.</td></tr>
<tr><td>Exercise of Privilege</td><td><table>
<tr><td>During the first year of the effectivity of the grant</td><td>1/3 of the total grant</td></tr>
<tr><td>During the second year of the effectivity of the grant</td><td>1/3 of the total grant</td></tr>
<tr><td>During the third year of the effectivity date of the grant</td><td>1/3 of the total grant</td></tr>
<tr><td colspan="2">or such shorter or longer period as the Committee may prescribe from date of effectivity thereof or the "Vesting Period".</td></tr>
</table></td></tr>
<tr><td>Participants[9]</td><td>All such full time and regular employees of the Corporation and such other qualified persons determined by the Personnel and Compensation Committee from those recommended by the Executive Committee from a list of all such full-time and regular employees of the Corporation, its subsidiaries and/or affiliates are eligible to participate in the Plan.<br><br>The Committee shall have the sole discretion to determine from the list recommended employees who will be granted options under the Plan, taking into consideration certain criteria such as, but not limited to the exceptional performance of the employee or his/her valuable contribution to the business of the Corporation, its subsidiaries and/or affiliates</td></tr>
</table>

The above application is pending approval of the Securities and Exchange Commission.

[9] The amount of options to be received by the Directors/Officers, or all other employees of the Xurpas’ group is not determinable as of date.

**d. Employment Contracts, Termination of Employment, Change-in-Control Arrangements**

The Executive Officers have entered into employment contracts with the Corporation which identifies their job functionalities. The Corporation does not have any compensatory plan or arrangements such as bonus, profit sharing, stock options, warrants, rights or other compensation plans or arrangements that results from the resignation, retirement of employment, or any other termination of an executive officer's employment with the Corporation, or from a change in control of the Corporation.

**e. Warrants and Options Outstanding**

The Corporation does not have any stock options, warrants or similar plans for any of its directors or officers. The Corporation has applied with the SEC for an Employee Stock Option Plan, approval of which is currently pending with the Securities and Exchange Commission and the Philippine Stock Exchange.

Item 7. **Independent Public Accountants**

The external auditor or independent public accountant of the Corporation is Sycip Gorrres Velayo &Co., which was reappointed during the Annual Stockholders' Meeting held on November 8, 2019. Since the firm's appointment, there has been no disagreement with the Corporation with regard to any matter relating to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

No action is to be taken with respect to this item during the Special Stockholders' Meeting.

Nonetheless, the representatives of the principal accountant are expected to be present at the Special Stockholders' Meeting and may also respond to appropriate questions with respect to matters for which their services were engaged.

Item 8. **Compensation Plans**

There are no matters or actions to be taken up with respect to any stock option, warrants, or rights plan.

## C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. **Authorization or Issuance of Securities Other than for Exchange**

On November 6, 2019, the Board approved the issuance of 1,706,072,261 common shares ("**Subscription Shares**") at a price of Php0.10 per share ("**Subscription Price**") from the available authorized capital stock to Eric Manlunas, Paul Santos, and James Jordan ("**Subscribers**"), general partners of several entities which forms part of the Wavemaker Partners Group. Upon issuance, the Subscribers shall own shares equivalent to 47.68% of the total outstanding shares of the Company.

*Description of the Subscription Shares*

The Company will issue common shares to the Company. There are no special rights attached to the shares to be issued to the Subscribers. Similar to all other holder of common shares, each holder of common share shall be entitled to such dividends as may be declared by the Board and on the basis of the outstanding stock held by them. The Board is authorized to declare dividends which shall be declared and paid out of the Corporation's unrestricted retained earnings. A cash dividend declaration does not require any further approval from the stockholders. A stock dividend approval shall require the further approval of the stockholders representing at least 2/3 of the Corporation's outstanding capital stock.

Each common share entitles the holders to one vote. At each meeting of the stockholders, each stockholder entitled to vote on a particular question or matter involved shall be entitled to vote for each share of stock standing in his name in the books of the Corporation as of record date. Voting shall be in accordance with the voting procedure described below.

Under the Corporation's articles of incorporation, holders of common stock have waived their pre-emptive right. There is no provision in the Corporation's amended articles of incorporation or by-laws that would delay, defer or prevent a change in control of the Corporation.

*Transaction*

On November 6, 2019, the Corporation has executed a Memorandum of Agreement wherein it will issue Subscription Shares at a total Subscription Price of Php170,607,226.06 to the Subscribers. The Subscription Price will be paid by the Subscribers in cash. The issuance of the Subscription Shares will be subject to certain conditions, one of which is securing stockholders' approval on the listing of the Subscription Shares with the Philippine Stock Exchange.

The proceeds from the issuance of the Subscription Shares will be used by the Corporation to purchase or subscribe into 100% shares in Wavemaker US Fund Management Holdings, LLC. Wavemaker US Fund Management Holdings, LLC. shall have equity ownership in the following fund management entities:

| **Company Name** | **Ownership Percentage** |
|---|---|
| Siemer Ventures LLC **(GP of Wavemaker Partners II LP)** | 62.50% |
| Wavemaker Partners LLC **(GP of Wavemaker Partners III LP)** | 66.67% |
| Wavemaker Management LLC **(GP of Wavemaker Partners V LP)** | 90.00% |
| **Wavemaker Global Select, LLC (Master SPV)** | 100.00% |

*Corporate Structure*

The Corporate Structure of the Corporation before and after the transaction will be as follows:

| | **Pre-Transaction** | | **Post-Transaction** | |
|---|---|---|---|---|
| **Principal Shareholders** | **No. of Shares** | **% Shareholding** | **No. of Shares** | **% Shareholding** |
| Nico Jose S. Nolledo | 322,226,622[10] | 17.21% | 322,226,622[11] | 9.01% |
| Fernando Jude F. Garcia | 375,073,960 | 20.04% | 375,073,960 | 10.48% |
| Raymond Gerard S. Racaza | 375,765,960 | 20.07% | 375,765,960 | 10.50% |
| Wavemaker Labs Pte. Ltd. | 47,099,950 | 3% | 47,099,950 | 1% |
| Eric Manlunas, Paul Santos and James Jordan | 0 | 0 | 1,706,072,261 | 48% |

[10] Shares of Nico Jose S. Nolledo includes shares registered in the name of Eden International Holdings Pte. Ltd.
[11] Shares of Nico Jose S. Nolledo includes shares registered in the name of Eden International Holdings Pte. Ltd.

After the transaction, Xurpas Shares held by the public will be at 21%.

*Use of Proceeds*

The Corporation will receive Php170,607,226.06 from the subscription by Eric Manlunas, Paul Santos and James Jordan in Xurpas Shares. The said Subscription Price will be used to purchase / subscribe to 100% shares in Wavemaker US Fund Management Holdings, LLC which shall own the following entities:

| **Company Name** | **Ownership Percentage** |
|---|---|
| Siemer Ventures LLC<br>**(GP of Wavemaker Partners II LP)** | 62.50% |
| Wavemaker Partners LLC<br>**(GP of Wavemaker Partners III LP)** | 66.67% |
| Wavemaker Management LLC<br>**(GP of Wavemaker Partners V LP)** | 90.00% |
| **Wavemaker Global Select, LLC (Master SPV)** | 100.00% |

Item 10. **Modification or Exchange of Securities**

There are no matters or actions to be taken up for the modification of any class of the Corporation's securities or the issuance or authorization for issuance of one class of the Corporation's securities in exchange for outstanding securities of another class.

Item 11. **Financial and Other Information**

a. Management's Discussion and Analysis is attached as Annex "B"; and
b. Unaudited Consolidated Financial Statements as of September 30, 2019 is attached as Annex "C".

Item 12. **Mergers, Consolidations, Acquisitions and Similar Matters**

**Subscription / Purchase of 100% Shares in *Wavemaker US Fund Management Holdings, LLC***

On November 6, 2019, the board of directors of the Corporation approved the purchase of 100% equity interest in Wavemaker US Fund Management Holdings, LLC which consolidates four (4) existing fund management entities identified below:

| **Wavemaker US Fund Management Holdings, LLC.** | **No. of Shareholdings** |
|---|---|
| Siemer Ventures LLC<br>**(GP of Wavemaker Partners II LP)** | 62.50% |
| Wavemaker Partners LLC<br>**(GP of Wavemaker Partners III LP)** | 66.67% |
| Wavemaker Management LLC<br>**(GP of Wavemaker Partners V LP)** | 90.00% |
| **Wavemaker Global Select, LLC (Master SPV)** | 100.00% |

Wavemaker US Fund Management Holdings, LLC is a newly formed holding company which will own shares in several venture capital management firms based in Los Angeles with approximately

US$210 million of assets under management at a purchase price of approximately Php170 million in cash. Wavemaker US Fund Management Holdings, LLC is owned and managed by Eric Manlunas, Paul Santos and James Jordan ("**General Partners**"). 100% Equity ownership in Wavemaker US Fund Management Holdings, LLC that will consolidate all of the General Partners' rights in the above mentioned fund management entities will give the Corporation access to high- value, emerging, innovative and disruptive technologies and platforms for its enterprise business and shareholders.

Wavemaker US Fund Management Holdings, LLC is formed as a Limited Liability Company in the State of Delaware. The address of its registered office is at 300 Delaware Venue, Suite 210-A, Wilmington, DE 19801, Country of New Castle with contact details as fllows: +1-310-310-2410

*Background on the fund management entities*

The entities identified above are engaged in the following activities:

1. act as general partner of a limited partnership, and its parallel funds, in compliance with the limited partnership agreement of each such partnership;

2. deal with any cash or securities that the company may receive from time to time from the fund; and

3. invest in securities for its own account.

All of the said fund management companies act as a general partner of a specific limited partnership and its parallel funds. The funds being managed are focused on companies with a clear path to recurring revenues and predictable customer lifetime value in the following Technology sectors: Enterprise Software, Frontier Tech, and Consumer. Provided below is a description of each of the fund being managed by the General Partners:

*Siemer Ventures LLC*

As the General Partner of Siemer Ventures II, LP (aka Wavemaker Partners II LP), the entity manages Wavemaker US Fund II, a fund that began in 2011 with total fund size $20 million.

Wavemaker US Fund II has invested in 90 companies across 24 technology categories as of year-end 2018. Many of the investments are in the AdTech, Digital Media, E-commerce, and SaaS/Enterprise categories.

Notable investments from Wavemaker US Fund II include Phunware, an enterprise mobile software company which is now trading on the Nasdaq, and Pie, an enterprise messaging software and is the first acquisition Google has made in SEA.

*Wavemaker Partners LLC*

Notable investments from Wavemaker US Fund III include Linqia, an influencer marketing software, and Clutter, an online self-storage company funded by Softbank.

*Wavemaker Management LLC*

As the General Partner of Wavemaker Partners V LP, the entity manages Wavemaker US Fund V, a fund that began in 2018 with a target of $60 Million for its total fund size.

Wavemaker US Fund V will be focused on seed and series A technology investments in underserved markets and has early-investments in 21 ventures across 12 sectors as of year- end 2018.

Notable investments from Wavemaker US Fund V include Wheels, a micro mobility transportation provider and Intrinio, a financial data marketplace.

*Wavemaker Global Select, LLC*

As the General Partner of Wavemaker Global Select SPV, the entity manages various technology investments spread across different vehicles in the US and SEA.

Notable investments from Wavemaker Global Select include Relativity Space, a 3-D aerospace manufacturing company, PopID, a facial recognition software, and Marcy Venture Partners, an early-stage fund formed by Roc Nation, Jay-Z's talent management agency.

The shares in the Wavemaker US Fund Management Holdings, LLC shall form part of the Company's assets. There will also a cash outflow for the purchase price for the purchase of the said shares

*Other terms*

As discussed, as part of the transaction, Eric Manlunas, Paul Santos and James Jordan ("Subscribers") will be subscribing to Xurpas common shares. See below other material information provided in the agreement executed between the parties. The said terms are still subject to negotiation and the Parties shall execute definitive agreements once the Company has completed its due diligence:

1. The Subscribers have agreed to waive their dividend rights in the event that there is any income or return in favor of Xurpas for a period of twelve months from execution of the Definitive Agreements. This will ensure that the new Subscribers do not immediately benefit from any of the existing business of the Company that may cause any disadvantage to the current / public shareholders.
2. Xurpas has a commitment to the Subscribers to list the shares with the Exchange within one (1) year from execution of the MOA. Nico Jose S. Nolledo and Fernando Jude F. Garcia will do a share-swap for a certain number of listed shares in their name in exchange of the unlisted Xurpas Shares issued to Eric Manlunas, Paul Santos and James Jordan in the event the new shares will not be listed with the Exchange within the 1 year period.

*Trading Price*

| | High | Low | Open | Close |
|---|---|---|---|---|
| November 5, 2019 | 0.94 | 0.99 | 0.93 | 0.98 |
| November 6, 2019 | 0.99 | 1.11 | 0.98 | 1.11 |
| November 7, 2019 | 1.11 | 1.03 | 1.09 | 1.09 |

On November 6, 2019, the opening price of Xurpas (X) is at Php0.99. On the same day, the Company disclosed the transaction and a trading halt was imposed. The trading halt was lifted at 2:30PM. The closing price of Xurpas (X) is at Php1.11.

Item 13. **Acquisition or Disposition of Property**

There are no matters or actions to be taken up in the meeting with respect to a merger, consolidation, acquisition by, sale or liquidation of the Corporation.

Item 14. **Restatement of Accounts**

There are no matters or actions to be taken up in the meeting with respect to the restatement of any asset, capital or surplus account of the Corporation.

## D. OTHER MATTERS

Item 15. **Action with Respect to Reports**

The following matters will be considered and acted upon at the meeting:

a. Approval of the Minutes of the Previous Stockholders' Meeting held on November 8, 2019;

The Minutes of the 2019 Annual Stockholders Meeting held last November 8, 2019 is attached herein and will be made available in the Corporation's website.

There are no other items to be submitted for approval or consideration.

Item 16. **Other Matters**

a. Approval of the application for listing with the Philippine Stock Exchange 1,706,072,261 common shares to be issued to Eric Manlunas, Paul Santos and James Jordan.

The issuance of the primary shares will be issued from the Corporation's available authorized capital stock and was approved by the Corporation's board of directors last November 6, 2019. As provided in the Memorandum of Agreement executed between the Corporation and the Subscribers, the execution of the Subscription Agreement for the issuance of 1,706,072,261 common shares in favor of Eric Manlunas, Paul Santos and James Jordan is conditioned on securing Xurpas' stockholders' approval on the application for listing of the said shares with the Philippine Stock Exchange.

Item 17. **Amendment of Charter, Bylaws or Other Documents**

There are no matters or actions to be taken up in the meeting with respect to any amendment of the Articles of Incorporation or By-Laws.

Item 18. **Other Proposed Action**

There are no other matters to be taken up during the meeting.

Item 19. **Voting Procedures**

a. Vote Required

For all matters to be taken up, majority vote of the outstanding capital stock present and represented at the meeting where a quorum exist shall be sufficient.

b. Method of Voting

A stockholder may vote in person or proxy.

For those attending the meeting, the stockholder will be given a ballot to be used for voting upon registration at the meeting. Accomplished ballots should be dropped into the ballot box provided at the registration area. The cut-off time for dropping the ballots is before the start of the meeting. After which, the Corporation's representatives will secure the ballot box, and will commence the tabulation of the votes in the designated tabulation area. No ballots dropped beyond the cut-off time shall be accepted or counted.

If by proxy, the said proxies must be filed with the Corporate Secretary or Transfer Agent of the Company at least seven (7) days before the meeting. Filed proxies may be revoked by the stockholders either in an instrument in writing duly presented to the Corporate Secretary or the Transfer Agent at least three (3) days before the meeting or by their personal presence at the meeting. Validation of proxies shall be done at least five (5) days before the day of the meeting by the Corporate Secretary.

**Undertaking to Provide Annual Report**

Upon written request of a stockholder, the Corporation undertakes to furnish said stockholder, without charge, a copy of its Annual Report or SEC Form 17-A. Such written request may be addressed to:

**MR. ALEXANDER D. CORPUZ**
President
Xurpas Inc.
7th Floor Cambridge Centre Building,
108 Tordesillas St., Salcedo Village,
Makati City 1227

[Signature Page Follows]

## SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati City on January 27, 2020.

**XURPAS INC.**

By:

**MARK S. GORRICETA**
Corporate Secretary, Chief Legal Officer
and Chief Compliance Officer

# CERTIFICATION

I, **MARK S. GORRICETA**, of legal age, Filipino and with office address at 15F and 4F Strata 2000 Building, F. Ortigas Jr. Road, Ortigas Center, Pasig City, Philippines, after having been duly sworn in accordance with law, hereby depose and say that:

1. I am the Corporate Secretary of **Xurpas Inc.** (the "**Corporation**"), a corporation duly organized and existing under the laws of the Republic of the Philippines with office at 7F Cambridge Centre Building, 108 Tordesillas St., Salcedo Village Makati City 1227;

2. In connection with the Annual Stockholders Meeting of the Corporation scheduled on February 19, 2020, 9:00 a.m. at Makati Sports Club, L.P. Leviste corner Gallardo Streets, Salcedo Village, Makati City, Metro Manila, Philippines, I hereby certify that none of the Corporation's directors or officers is connected with any government agencies or its instrumentalities; and

3. I am executing this Certification in compliance with the requirements of the Securities and Exchange Commission.

Executed on DEC 16 2019 at PASIG CITY

**MARK S. GORRICETA**
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)
PASIG CITY ) S.S.

SUBSCRIBED AND SWORN to before me this DEC 16 2019 day of ______ 2019, affiant exhibiting to me his Passport No. EC50401039 issued on September 19, 2015 and valid until September 18, 2020.

Doc. No. 181;
Page No. 38;
Book No. 2;
Series of 2019.

ATTY. MARIEL CLAIRE D. GONZALES
PTR No. 5232388/ 01-08-19/ Pasig City
IBP LIFETIME No. 017254/ 06-09/17
Roll No. 69080
MCLE Compliance VI-0020653; 03-25-19
Gorriceta Africa Cauton & Saavedra Law Office
15th Flr. Strata 2000 Building, F. Ortigas, Jr. Ro
Pasig City, Tel. No. (02)6960988/669068?
Appointment No. 147 (2019-2020)

## CERTIFICATION

I, **BARTOLOME SILAYAN, JR.**, Filipino, of legal age and a resident of 16 San Martin Street, Magallanes Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Xurpas Inc.** (the "**Corporation**");

2. I am affiliated with the following companies or organizations:

| COMPANY/ORGANIZATION | POSITION/ RELATIONSHIP | PERIOD OF SERVICE |
|---|---|---|
| Phoenix One Knowledge Solutions Inc. | President | 2005 - present |
| Cafisglobal Inc. | President | 2013 - present |
| Sugarbee Inc. | Treasurer | 2010 - present |
| Panalo Express Ventures Inc. | Director | 2019 - present |
| Tveez Inc. | Director | 2015 - present |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities and Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any of the directors/officers/substantial shareholders of the Corporation, its subsidiaries, and affiliates nor a relative in any other way than the relationship provided under Rule 38 of the Securities Regulation Code.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not an officer or director of any government agencies or Government-Owned and Controlled Corporations.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Manual on Corporate Governance for Publicly Listed Companies and other SEC issuances.

8. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Executed on ______ day of JAN 0 7 2020, at PASIG CITY.

BARTOLOME SILAYAN, JR
Affiant

SUBSCRIBED AND SWORN to before me this JAN 0 7 2020 at PASIG CITY, affiant personally appeared before me and exhibited to me his Drivers License N06-84-031099 expiring on November 1, 2022.

Doc. No. 245;
Page No. 30;
Book No. 2;
Series of 2020.

ATTY. MARIEL CLAIRE D. GONZALES
PTR No. 5232388/ 01-08-19/ Pasig City
IBP LIFETIME No. 017254/ 06-09/17
Roll No. 69080
MCLE Compliance VI-0020653, 03-25-19
Gorriceta Africa Cauton & Saavedra Law Office
15th Flr. Strata 2000 Building, F. Ortigas, Jr. Road
Pasig City, Tel. No. (02)6960988/66900?37
Appointment No. 147 (2019-2020)

# CERTIFICATION

I, **IMELDA C. TIONGSON**, Filipino, of legal age and resident 53 Pres. Magsaysay Street South Admiral Paranaque after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Xurpas Inc.** (the "**Corporation**");

2. I am affiliated with the following companies or organizations:

3.

| COMPANY/ORGANIZATION | POSITION/ RELATIONSHIP | PERIOD OF SERVICE (indicate year) |
|---|---|---|
| OPAL PORTFOLIO INVESTMENTS (SPV-AMC) INC. | President and CEO | 12 Years 2007 |
| Fin Tech Global Resources Inc. | Independent Dir | 2017 to 2019 (finishing Dec 2019) |
| Institute of Corporate Directors | Trustee | 4 years 2016 |
| Management Association of the Philippines | Vice Chairman-Governance | 1 year 2019 |
| Fintech Philippines Association | Trustee | 1 year 2019 |

4. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities and Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

5. I am not related to any of the directors/officers/substantial shareholders of the Corporation, its subsidiaries, and affiliates nor a relative in any other way than the relationship provided under Rule 38 of the Securities Regulation Code.

6. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

7. I am not an officer or director of any government agencies or Government-Owned and Controlled Corporations.

8. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Manual on Corporate Governance for Publicly Listed Companies and other SEC issuances.

9. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Executed on ~~12~~ 18th day of December, at Makati Philippines.

**IMELDA C. TIONGSON**
Affiant

SUBSCRIBED AND SWORN to before me this ~~12~~ 18 Dec 2019 at Makati City, affiant personally appeared before me and exhibited to me her SSS ID 33-1959400-0 expiring on No expiry. **[NOTE: PLEASE PROVIDE ID]**

Doc. No. 472;
Page No. 96;
Book No. V;
Series of 2019.

ATTY. JAMIE O. REAL
Commission No. M-206; Roll No. 68794
Notary Public for Makati City Until December 31, 2020
10th Floor, Allied Bank Center, 6754 Ayala Avenue, Makati City
PTR No. 7365883/Jan. 18, 2019/Makati City
IBP Lifetime No. 018651/Dec. 11, 2017/Manila IV

**XURPAS INC.**
**MANAGEMENT REPORT**
For the Special Stockholders' Meeting
To be held on March 4, 2020
Pursuant to SRC Rule 20 (4) (1)

1. **Interim Financial Statements as of September 30, 2019 and as of September 30, 2018**

Please refer to Annex "C" for the Interim Financial Statements as of September 30, 2019 and September 30, 2018.

2. **There were no disagreements with accountants on accounting and financial disclosures.**

Sycip Gorres Velayo & Co. ("SGV & Co.") has acted as the Group's independent auditors since 2008. The Corporation has not had any material disagreement on accounting and financial disclosure with SGV & Co.

Representatives of SGV & Co. will be present during the Special Stockholders' Meeting in the event that there are questions that will be addressed to them.

3. **Management's Discussion and Analysis or Plan of Operation**

The Corporation's business units comprise of Mobile consumer products and services; Enterprise solutions; and Other services (HR technology services). After its initial public offering in December 2014, the Corporation made several investments in various technology companies, within and outside of the Philippines.

In 2018, the Corporation's business was severely affected when its Telco partner implemented new and stricter opt-in guidelines for customers who sign up for VAS subscription. The Corporation's revenue from its mobile consumer services significantly declined as a result of this. Moreover, the Corporation's wholly owned subsidiary, Art of Click Pte. Ltd., was severely affected by the challenges faced by digital advertising industry.

In 2019, the Corporation evaluated its business segments to maximize its resources and opportunities. As part of its restructuring program, the Corporation initiated the following measurers:

- Sale of its 51% shareholdings in Yondu Inc. The sale will provide the Corporation additional liquidity, retire debt, and allow us to focus on high-value, emerging, innovative, and disruptive technologies and platforms impacting both enterprise and consumer commerce.

- Dissolve Xeleb Technologies Inc. and Xeleb Inc (collectively referred to as "Xeleb"). All residual businesses of Xeleb will be carried over to the parent company. This strategy will eliminate expenses incurred in maintaining a separate entity.

The Corporation has also implemented corporate restructuring programs to minimize on costs and expenses.

On November 6, 2019, the Corporation disclosed that it will purchase shares in Wavemaker US Fund Management Holdings, LLC (the "**Holding Company**"). The Holding Company will own equity interest in the following management companies: 62.5% of Siemer Ventures LLC, 66.67% of Wavemaker Partners LLC, 90% of Wavemaker Management LLC, and 100% of Wavemaker Global Select, LLC (collectively referred to as "**Wavemaker Partners US**"). Wavemaker Partners US are VC Management Firms that invests in several technology companies in exchange of minority stake. Wavemaker Partners US earn management fees and carried interests and these are expected to contribute to Xurpas' financial condition for the long-term.

The consolidation of all of the General Partners' rights in Wavemaker Partners US into the Holding Company is part of the pre-closing conditions before the execution of the definitive agreements for the transaction.

The Corporation has also emphasized that it will focus and strengthen its enterprise business.

*For the nine-month period ended September 30, 2019 compared with the nine-month period ended September 30, 2018*

Total revenues of the Group increased by 6%, from ₱869.10 million in the first nine months of 2018 to ₱922.01 million in the first nine months of 2019.

In the first nine months of 2019, the Group saw its revenues driven by the Enterprise services which now accounts for 90% of total revenues. The segment's revenues grew by ₱244.83 million or 42% from first nine months of 2018 vis-à-vis the same period in 2019. Other services also contributed to the growth as it increased by 27% from ₱56.16 million to ₱71.45 million over the same period.

The 42% increase in enterprise revenues can be attributed to the increase in Yondu's enterprise revenues from ₱550.58 million in 1st to 3rd quarter of 2018 to ₱781.94 million for the same period in 2019. Likewise, Xurpas Inc.'s (Parent Company) efforts on strengthening the enterprise segment, through its subsidiary Xurpas Enterprise Inc. (XEI), has shown noteworthy results. XEI's first nine-months of 2019 revenues increased by 20% from ₱24.19 million in the first nine months of 2018 to ₱29.05 million.

The ongoing cost-cutting initiatives of the Group (excluding Yondu) has shown satisfying results as overall cost of services decreased by 5% (from ₱700.31 million in the first nine months of 2018 to ₱662.74 million for the comparable period in 2019). Moreover, the general and administrative expenses (GAEX) decreased from ₱347.55 million for the first three quarters of 2018 to ₱317.24 million for first three quarters of 2019 or by 9%. Isolating Yondu (the business growth of which, led to 32% increase in its cost of services and 13% in its GAEX), Xurpas Parent and the other subsidiaries in the group saw its cost of services decrease by 48%, and GAEX decrease by 32%.

On September 11, 2019, the Corporation sold its 51% shareholding in Yondu back to Globe Telecom Inc., for a total amount of ₱501.25 million. As a result, the Group consolidated Yondu's statement of comprehensive income up to the date of sale. Total provisional loss on disposal of Xurpas' stake in Yondu recognized on the consolidated profit or loss amounted to ₱480.97 million. Likewise, the sale of Xurpas 51% stake in Yondu resulted into the deconsolidation of its assets, liabilities, and equity from Xurpas.

Despite the increase in revenues and substantial decrease in expenses, Xurpas still recorded a net loss due to the recognition of loss on sale of the Corporation's equity stake in Yondu. The resulting net loss for the first nine months of 2018 of ₱190.41 million worsened to losses of ₱656.44 million in the first nine months of 2019.

**Financial Summary**

*The income statement provided herein includes revenues of Yondu until September 11, 2019.*

| Key Financial Data In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase (Decrease) |
| | Amount | Percentage | Amount | Percentage | | |
| **Revenues** | | | | | | |
| Enterprise services | 827.12 | 90% | 582.30 | 67% | 244.83 | 42% |
| Mobile consumer services | 23.45 | 3% | 230.64 | 27% | (207.20) | -90% |
| Other services | 71.45 | 8% | 56.16 | 6% | 15.29 | 27% |
| *Total Revenues* | **922.01** | **100%** | **869.10** | **100%** | **52.91** | **6%** |
| Cost of Services | 662.74 | 72% | 700.31 | 81% | (37.57) | -5% |
| Cost of Goods Sold | 57.11 | 6% | 40.60 | 5% | 16.50 | 41% |
| **Gross Profit** | **202.16** | **22%** | **128.19** | **15%** | **73.97** | **58%** |
| General and Administrative Expenses | 317.24 | 34% | 347.55 | 40% | (30.31) | -9% |
| Equity in Net Loss of Associates | 4.51 | 1% | 27.97 | 3% | (23.47) | -84% |
| Other charges - net | 514.00 | 56% | 3.82 | 0% | 510.18 | 13368% |
| **Loss Before Income Tax** | **(633.59)** | **-69%** | **(251.15)** | **-29%** | **(382.44)** | **152%** |
| Provision for (Benefit from) Income Tax | 22.84 | 2% | (60.74) | -7% | 83.58 | -138% |
| **Net Loss** | **(656.44)** | **-71%** | **(190.41)** | **-22%** | **(466.03)** | **245%** |
| Other Comprehensive Income | (1.49) | 0% | 2.56 | 0% | (4.05) | -158% |
| **Total Comprehensive Loss** | **(657.92)** | **-71%** | **(187.85)** | **-22%** | **(470.07)** | **250%** |

| | September 30, 2019 Amount | December 31, 2018 Amount | Amount Change | % Increase (Decrease) |
|---|---|---|---|---|
| **Total Assets** | 2,812.19 | 4,966.57 | (2,154.37) | -43% |
| **Total Liabilities** | 798.08 | 1,499.98 | (701.90) | -47% |
| **Total Equity** | 2,014.11 | 3,466.58 | (1,452.47) | -42% |

Total revenues increased by ₱52.91 million or 6%, from ₱869.10 million in the first nine months of 2018, to ₱922.01 million for the comparable period in 2019. The Group's revenues were still mainly driven by enterprise services, comprising 90% of the total revenues, compared to 67% in the first nine months of 2018.

The blended cost of services decreased by 5% from ₱700.31 million for the nine-month period ended September 30, 2018 to ₱662.74 million for the comparable period in 2019. Cost of goods sold attributable to other services is at ₱57.11 million for the nine-month period ended September 30, 2019 compared to ₱40.60 million in the same period in 2018, an increase of 41% or ₱16.50 million.

Gross profit margins on total revenues, for the period ended September 30, 2019 is at 22%, an increase from the same period last year at 15%. Gross profit increased by 58% from ₱128.19 million for the first nine months of 2018 to₱202.16 million for the same period in 2019.

General and administrative expenses decreased by 9%, from ₱347.55 million for the first nine months of 2018 to ₱317.24 million for the same period in 2019. Overall, the decrease in the cost of services and general and administrative expenses were mainly due to the cost reduction initiatives undertaken by the Group. Note however that although the Group (excluding Yondu) initiated cost cutting measures, Yondu had to increase its cost levels to support the growth of its business segments.

The Corporation also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱4.51 million for the nine-month period ended September 30, 2019; an 84% improvement from the ₱27.97 million share in net loss of the associate companies for the first nine months of 2018.

Loss before income tax worsened by 152% from ₱251.15 million for the first nine months of 2018 to ₱633.59 million for the same period in 2019. The said loss can be mostly attributed to the sale of equity shareholdings in Yondu, which is at ₱480.97 million.

Provision for income taxes during the first nine months of 2019 amounted to ₱22.84 million (without the utilization of deferred tax assets), while benefit from income tax amounting to ₱60.74 million was recognized in the same period in 2018.

Overall, the net loss for the Group grew from ₱190.41 million for the first nine months of 2018 to ₱656.44 million over the same period in 2019.

Due to the sale of the equity shareholdings in Yondu, the Corporation effected the deconsolidation Yondu's balance sheet accounts from the Group which resulted in the decreases of Xurpas' asset, liability, and equity levels. Consolidated total assets as of September 30, 2019 amounted to ₱2,812.19 million, a decrease by 43% from ₱4,966.57 million as of December 31, 2018. Consolidated total liabilities decreased by 47% from ₱1,499.98 million as of December 31, 2018 to ₱798.08 million in September 30, 2019. Consolidated total equity decreased by 42% over the same period, from ₱3,466.58 million to ₱2014.11 million, resulting also, from the net loss incurred during the period.

**Segment Financial Performance**

| **For the 9-month period ended September 30, 2019<br>In PhP Millions** | **Mobile Consumer Services** | **Enterprise Services** | **Other Services** | **Intersegment Adjustments** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from services | 25.28 | 833.93 | 2.63 | (8.64) | 853.20 |
| Revenue from sale of goods | - | - | 68.81 | - | 68.81 |
| **Total Service Revenues** | **25.28** | **833.93** | **71.44** | **(8.64)** | **922.01** |
| Operating expenses | 508.99 | 754.22 | 106.37 | (332.49) | 1,037.09 |
| Equity in net loss of associates | - | - | - | 4.51 | 4.51 |
| Other charges - net | 20.37 | 2.89 | 4.76 | 485.98 | 514.00 |
| **Total Expenses** | **529.35** | **757.11** | **111.13** | **158.00** | **1,555.60** |
| **Operating Income (Loss)** | **(504.07)** | **76.82** | **(39.69)** | **(166.64)** | **(633.59)** |
| Provision from income tax | (0.08) | (28.41) | (0.00) | 5.65 | (22.84) |
| **Net Income (Loss)** | **(504.16)** | **48.41** | **(39.70)** | **(160.99)** | **(656.43)** |

For the nine-month period ended September 30, 2019, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱25.28 million, ₱504.07 million and ₱504.16 million, respectively. Enterprise services had an operating income of ₱76.82 million and net income of ₱48.41 million from revenues of ₱833.93 million. The other services segment had revenues of ₱71.44 million, ending up with an operating loss of ₱39.70 million.

**Profitability**

*For the nine-month period ended September 30, 2019 compared with the nine-month period ended September 30, 2018*

**Revenues**

The consolidated revenues of the Group for the nine-month period ended September 30, 2019 amounted to ₱922.01 million, an increase of 6% from ₱869.10 million the same period of the previous year.
The service income component of total revenues is comprised of the following segments:

| Segment | Description | Subsidiaries |
|---|---|---|
| Mobile consumer services | Revenues ultimately derived from providing mobile consumer services via the Telcos, as well as mobile marketing and advertising solutions integrated in mobile casual games and platforms | • Xurpas Parent Company<br>• Xeleb Technologies<br>• Yondu<br>• Art of Click |
| Enterprise | Revenues derived from the provision of | • Seer |

| | | |
|---|---|---|
| services | 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 | • Yondu<br>• Xurpas Enterprise |
| Other services | Revenues derived from services related to the proprietary platform called "Flex Benefits System" and "Ace" (formerly "Kudos") which allows employees to convert their employee benefits to other benefits which includes sale of goods | • Storm Technologies |

Yondu operated both under mobile consumer services and enterprise services segments of the Group. However, after September 11, 2019, Yondu will have no revenue contribution to these segments.

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| **Revenues** | | | | | | |
| Enterprise services | 827.12 | 90% | 582.30 | 67% | 244.83 | 42% |
| Mobile consumer services | 23.45 | 3% | 230.64 | 27% | (207.20) | -90% |
| Other services | 71.45 | 8% | 56.16 | 6% | 15.29 | 27% |
| *Total Revenues* | **922.02** | **100%** | **869.10** | **100%** | **52.92** | **6%** |

Revenues from enterprise services (which accounts for 90% of total revenues) increased by 42% in September 30, 2019, to ₱827.12 million from ₱582.30 million in September 30, 2018. On the other hand, revenues from the mobile consumer services segment for the nine-month period ended September 30, 2019 amounted to ₱23.45 million, a decrease by 90% from the previous year's same period level of ₱230.64 million. This segment accounts for 3% of the total revenues. As of the period ended September 30, 2019, there has been no recovery on the value-added services (VAS) business with Globe and the digital advertising business. Other services' recorded revenues of ₱71.45 million in the first nine months of 2019, an increase by 27% from the previous level at ₱56.16 million over the same period last year.

**Expenses**

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| **Expenses** | | | | | | |
| Cost of Services | 662.74 | 64% | 700.31 | 64% | (37.57) | -5% |
| Cost of Goods Sold | 57.11 | 5% | 40.60 | 4% | 16.50 | 41% |
| General and Administrative Expenses | 317.24 | 31% | 347.55 | 32% | (30.31) | -9% |
| *Total Expenses* | **1,037.09** | **100%** | **1,088.46** | **100%** | **(51.37)** | **-5%** |

The Group's consolidated expenses during the nine-month period ended September 30, 2019 amounted to ₱1,037.09 million, a 5% decrease from the same period of the previous year at ₱1,088.46 million. For the first nine months of 2019, cost of services accounted for the bulk of expenses, totaling ₱662.74 million or 64% of the Group's consolidated expenses. For the same period in 2018, cost of services amounted to ₱700.31 million, which also comprised 64% of overall expenses.

<u>Cost of Services</u>

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | % | Amount | % | | |
| **Cost of Services** | | | | | | |
| Salaries, wages and employee benefits | 490.92 | 74% | 473.38 | 68% | 17.54 | 4% |
| Segment fee and network costs | 66.06 | 10% | 97.40 | 14% | (31.34) | -32% |
| Web hosting | 34.25 | 5% | 29.21 | 4% | 5.04 | 17% |
| Others | 71.51 | 10% | 100.32 | 14% | (28.81) | -29% |
| *Total Expenses* | **662.74** | **100%** | **700.31** | **100%** | **(37.57)** | **-5%** |

Cost of services totaling ₱662.74 million as of September 30, 2019, was mainly driven by expenses relating to salaries, wages, and employee benefits. There is a total decrease of ₱37.57 in cost of services compared to the same period in 2018 which was previously at ₱700.31million.

Cost of Goods Sold

For nine-month period ended September 30, 2019, cost of goods sold increased by 5% of the Group's consolidated expenses, amounting to ₱57.11 million. This figure was an increase by 41% from its previous level at ₱40.60 million in September 30, 2018. The increase in cost of goods sold is directly attributable to the increase in revenues of Storm Technologies Inc. (Storm).

General and Administrative Expenses

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| **General and Administrative Expenses** | | | | | | |
| Salaries, wages and employee benefits | 155.94 | 49% | 183.37 | 53% | (27.43) | -15% |
| Depreciation and amortization | 37.30 | 12% | 29.46 | 8% | 7.84 | 27% |
| Outsourced services | 17.22 | 5% | 22.21 | 6% | (4.99) | -22% |
| Others | 106.78 | 34% | 112.51 | 32% | (5.73) | -5% |
| *Total Expenses* | **317.24** | **100%** | **347.55** | **100%** | **(30.31)** | **-9%** |

General and administrative expenses relating to the Group's operations, for the first nine months of 2019 amounted to ₱317.24 million, a decrease by 9% compared to previous year's same period level of ₱347.55 million. Salaries, wages and employee benefits is at ₱155.94 million or 49% of the total general and administrative expenses (GAEX).

**Equity in Net Loss of Associates**

The equity of the Group in the net loss of its associate companies for the nine-month period ended September 30, 2019, amounted to ₱4.51 million; 84% lower than the ₱27.97 million net loss for the comparable period. The decrease in equity in net loss of associates can be attributed to the net income recorded by PT Ninelives Interactive (Ninelives) and Altitude Games Pte. Ltd. (Altitude SG) for the nine-month period ended September 30, 2019 and the significant reduction in the loss of Micro Benefits Limited (MicroBenefits) over the period.

**Other Charges – net**

For the first nine months of 2019, the Group recognized other net charges amounting to ₱514.00 million. This account mainly pertains to interest expense, foreign exchange gains and losses, and bank charges. However, the biggest component of this account is the loss on sale of Xurpas' 51% shareholdings in Yondu, which amounted to ₱480.97 million.

**Loss before Income Tax**

The Group's net loss before taxes for the nine-month period ended September 30, 2019 is at ₱633.59 million. The net loss before taxes for the Group increased by 152% or ₱382.44 million from the same period ended September 30, 2018, which is at ₱251.15 million.

**Provision for (Benefit from) Income Tax**

Despite incurring a loss before income tax, the Group still recognized a provision for income tax for the nine-month period ended September 30, 2019 amounting to ₱22.84 million. The recognition of provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the period. These are deductible temporary differences for which no DTA are recognized since management believes that there are no sufficient taxable profits against which the DTA can be utilized. For the period ended September 30, 2019, changes in unrecognized DTA amounted to ₱36.09 million. For the nine-month period ended September 30, 2018, the Group recognized benefit from income tax amounting to ₱60.74 million.

**Net Loss**

The Group posted a consolidated net loss of ₱656.44 million for the nine-month period ended September 30, 2019, an increase of 245% from the previous year's same period at ₱190.41 million. Pro-forma net loss showing a 222% increase is shown below had the Group opted not to recognize DTA in the same period in 2018:

| | For the nine-month period ended September 30 | |
|---|---|---|
| | 2019 | 2018 |
| In PhP Millions | Amount | Amount |
| Loss before income tax | (633.59) | (251.15) |
| Provision for income tax | 22.84 | (47.09) |
| **Net Loss** | **(656.44)** | **(204.06)** |

**Total Comprehensive Income (Loss)**

As of September 30, 2019, the Group's total comprehensive loss amounted to ₱657.92 million, an increase by 250% compared to total comprehensive loss of ₱187.85 million as at September 30, 2018.

**Financial Position**

*As of September 30, 2019 compared to December 31, 2018*

**Assets**

*Cash and Cash Equivalents*

The Group's consolidated cash and cash equivalents amounted to ₱281.05 million as at September 30, 2019, a net increase of 58% or ₱103.66 million from consolidated cash of ₱177.40 million as at December 31, 2018. The increase in cash is mainly due to the advances made by certain shareholders (founders) to Xurpas Inc. (parent company) and net proceeds from the sale of the Corporation's equity shareholdings in Yondu after settling debt obligations.

*Accounts and Other Receivables*

The Group's consolidated accounts and other receivables amounted to ₱63.52 million and ₱530.64 million as at September 30, 2019 and December 31, 2018, respectively, representing a decrease of ₱467.11 million. In September 30, 2019, trade receivables were valued at ₱300.33 million. Although the Corporation has a total accounts receivables of ₱329.01 million, the Corporation considered providing for an allowance for impairment/doubtful accounts amounting to ₱265.48 million, which resulting to a net receivables of ₱63.53 million.

*Contract Asset*

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

The Group's consolidated contract asset is at ₱1.28 million as of September 30, 2019, a decrease of ₱8.47 million or 87% from its previous level on December 31, 2018 at ₱9.75 million.

*Other Current Assets*

The Group's consolidated other current assets totaled ₱50.44 million as of September 30, 2019, a decrease of ₱7.47 million or 13% from its previous level on December 31, 2018 at ₱57.90 million. Creditable withholding taxes, input VAT and prepaid expenses comprised majority of other current assets.

*Financial assets at FVOCI*

This account pertains to quoted and unquoted equity investments in Club Punta Fuego and Zowdow Inc. As at September 30, 2019, carrying value and net unrealized loss on financial assets at FVOCI recognized in the consolidated statement of financial position remained unchanged from its previous level on December 31, 2018 which amounted to ₱0.48 million and ₱44.22 million, respectively.

*Investment in Associates*

As of September 30, 2019, the Group's consolidated investment in associates amounted to ₱451.49 million, a 1% decrease from its figure of ₱456.00 million during December 31, 2018. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱25.43 million), MatchMe Pte. Ltd. (₱43.64 million), PT Sembilan Digital Investama (₱15.36 million), and Micro Benefits Limited (₱367.06 million).

*Property and Equipment*

The Group's consolidated property and equipment is at ₱15.25 million as of September 30, 2019 vis-à-vis ₱59.52 million as of December 31, 2018, or a decrease of 74%. Property and equipment consisted of leasehold improvements, leased assets, office, information technology equipment, furniture and fixtures and right-of-use assets. Under PFRS 16, lessees will recognize lease liability, and a right-of-use asset for almost all leases.

*Intangible Assets*

Intangible assets of ₱1,905.30 million as at September 30, 2019 were recognized in relation to the Group's acquisitions and investments. This is a 90% decrease vis-à-vis the December 31, 2018 figure of ₱3,612.92 million. A substantial portion of the decline is due to the derecognition of Intangible assets recorded when Xurpas previously acquired 51% of Yondu in 2015.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of September 30, 2019, goodwill is at ₱1,859.61 million.

- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecom Inc., its major customer which are expected to generate revenues for the Group in subsequent periods. As of September 30, 2019, customer relationship valued at ₱1,077.81 million was derecognized due to sale by the Corporation of its Yondu shares.

- 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 September 30, 2019, developed software net book value is at ₱100.68 million. Amortization of developed software for the nine-month period ended September 30, 2019 amounted to ₱22.39 million.

- Cryptocurrencies pertain to units of Bitcoin and Ethereum held by the Group as at September 30, 2019 valued at ₱5.32 million.

- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of September 30, 2019, leasehold rights net book value is at ₱5.15 million. Amortization of leasehold rights for the nine-month period ended September 30, 2019 amounted to ₱1.45 million.

*Deferred Tax Assets – Net*

The Group's consolidated net deferred tax assets level amounted to ₱6.64 million as at September 30, 2019, which decreased by 53% from ₱14.19 as at December 31, 2018.

*Other Noncurrent Assets*

Other noncurrent assets amounted to ₱36.73 million as of September 30, 2019. This figure is 21% lower than the value posted as of December 31, 2018 at ₱46.37 million. These are primarily rental and other deposits amounting to ₱1.39 million and ₱35.20 million, respectively.

**Liabilities**

*Accounts and Other Payables*

The Group's consolidated accounts and other payables valued at ₱551.38 million as at September 30, 2019 is a 22% or ₱143.15 million decrease from its December 31, 2018 which was previously at ₱654.52 million. The Group's accounts and other payables consisted mainly of trade payables at ₱120.05 million, payable to related parties at ₱104.87 million, accrued expenses at ₱18.4 million, nontrade payables at ₱54.75 million, taxes payable at ₱11.27 million, deferred output VAT at ₱1.50 million and other payables at ₱200.52 million.

*Loans Payable*

The Group recorded ₱54.51 million in current loans in September 30, 2019 and ₱358.74 million in December 31, 2018. The outstanding bank loans of Xurpas parent, amounting to ₱304.23 million were settled, which resulted in the decrease in loans payable.

*Contract liability*

Contract liabilities are obligations to transfer goods and services to customers from whom the Group has received consideration. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due. Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group's consolidated contract liability as at September 30, 2019 amounted to ₱49.94 million, an increase of 12% from the December 31, 2018 figure of ₱44.50 million.

*Income Tax Payable*

The Group's consolidated income tax payable as at September 30, 2019 amounted to nil, a decrease of 100% from the December 31, 2018 figure of ₱2.19 million.

*Other Current Liabilities*

The Group's other current liabilities amounted to ₱0.75 million in September 30, 2019 compared to ₱63.75 million in 2018, a decrease of 98%. A substantial portion of this account is the dividends payable by Yondu, which was deconsolidated when the Corporation sold its equity shareholdings in Yondu.

*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, amounted to ₱0.02 million and ₱0.03 million in September 30, 2019 and December 31, 2018, respectively.

*Deferred Tax Liability - net*

As of September 30, 2019, the deferred tax liability (net) is at ₱7.94 million, a decrease of 98% or ₱344.79 million from ₱352.73 million as of December 31, 2018. This is primarily the deferred tax liability on fair value adjustment on intangible assets, pertinent to Yondu.

*Pension Liability*

The accrued pension of the Group is at ₱23.52 million in September 30, 2019, which remains unchanged from its levels in December 31, 2018.

**Equity**

*Total Equity*

The Group's total equity as of September 30, 2019 is at ₱2,014.11 million, a 42% decrease from its December 31, 2018 level at ₱3,466.58 million. Retained earnings decreased by ₱612.55 million or 110% in September 30, 2019. This is largely a result of the sale of the 51% shareholding of Xurpas in Yondu, affecting not only the retained earnings but the non-controlling interest amount.

**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 attributed to Seer Technologies Inc. and Storm 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 nine months ended September 30 | |
|---|---|---|
| | 2019 | 2018 |
| | Amount | Amount |
| Net cash provided by (used in) Operating Activities | (605.32) | (117.12) |
| Net cash provided by (used in) Investing Activities | 844.80 | (10.85) |
| Net cash provided by (used in) Financing Activities | (142.40) | 65.10 |
| Effect of foreign currency exchange changes in cash | 6.57 | 27.10 |
| Net increase (decrease) in cash | 103.65 | (35.77) |
| Cash at beginning of period | 177.40 | 215.25 |
| Cash at end of period | **281.05** | **179.48** |

*Cash Flows Used In Operating Activities*
For the first nine months of 2019, operating loss of ₱529.58 million was coupled with the corresponding increase in account receivables and account payables for a resulting ₱559.71 million net cash spent for operations. Together with interest received and income taxes paid, this resulted in a net cash used in operating activities of ₱605.32 million.

*Cash Flows Provided for Investing Activities*
The Group's consolidated cash flows provided by investing activities for the first nine months of 2019 was ₱844.80 million compared to ₱10.85 million used in the same period of 2018. The net cash provided by investing activities was mainly attributable to the sale of Yondu shares.

*Cash Flows Used in Financing Activities*
The Group's consolidated net cash flow used in financing activities for the nine-month period ended September 30, 2019 was ₱142.40 million; compared to ₱65.10 million provided for the nine-month period ended September 30, 2018. The cash flow provided by financing activities were mainly from advances from stockholders, payment of dividends and loans.

Capital Expenditure

The Group's capital expenditures for the nine-month period ended September 30, 2019 and the year ended December 31, 2018 amounted to ₱84.87 million and ₱18.35 million, respectively.

| Key Financial Data<br>In PhP Millions | September 30, 2019<br>Additions | December 31, 2018<br>Additions |
|---|---|---|
| Right-of-use Assets | 73.49 | - |
| IT Equipment | 10.22 | 14.58 |
| Leasehold Improvements | 1.14 | 2.52 |
| Office Equipment | 0.02 | 1.19 |
| Furniture and Fixtures | - | 0.06 |
| Leased Asset | - | - |
| | **84.87** | **18.35** |

Additions of right-of-use assets resulted from adoption of PFRS 16.

**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 nine-month periods ended September 30 | | For the year ended December 31 |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| **Liquidity Ratios** | | | |
| Current Ratio | **64%** | 94% | 69% |
| Quick Ratio | **56%** | 84% | 64% |
| **Asset-to-Equity Ratio** | **135%** | 164% | 183% |
| **Profitability Ratios** | | | |
| Net Income Margin | **-72%** | -21% | -62% |
| Gross Margin | **22%** | 15% | 9% |
| Operating Margin | **-58%** | -21% | -46% |
| Return on Total Assets | **-17%** | -3% | -14% |
| Return on Equity | **-28%** | -5% | -22% |
| **Debt Ratios** | | | |
| Debt-to-Equity Ratio | **0.38x** | 0.40x | 0.55x |
| Interest Coverage Ratio | **-17.18x** | -11.03x | -20.45x |

**Current Ratios**

Current Ratio and Quick Ratio in the nine-month period ended September 30, 2019 were 64% and 56%, respectively, a decrease from their respective 69% and 64% figures during the full year of 2018. The decrease in both ratios was primarily from the significant decrease in current assets of the Group for that period.

**Asset-to-Equity Ratio**

The decrease in the asset-to-equity ratio from 183% in December 31, 2018 to 135% in September 30, 2019 resulted from the decrease in equity due to net loss incurred during the period reduction of the non-controlling interest amount and the decrease in total assets due to deconsolidation of Yondu.

**Profitability Ratios**

Profitability margins had the following results due to the sale of Xurpas' 51% shareholding in Yondu: Gross Profit Margin (22%); Net Loss Margin (-72%), Operating Margin (-58%), Return on Total Assets (-17%) and Return on Equity (-28%).

**Debt Ratios**

Debt to Equity in September 30, 2019 is at 0.38x compared to 0.55x as at December 31, 2018. The decrease in the gearing ratio is attributed to significant decrease in liabilities and lower total equity value in September 30, 2019 compared to the previous year. Interest coverage ratio in September 30, 2019 is at 17.18x compared to -20.45x in December 31, 2018.

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

**Current Ratios**

1. Current ratio $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

2. Quick ratio $\dfrac{\text{Current assets – Other current assets}}{\text{Current liabilities}}$

**Asset-to-equity Ratio** $\dfrac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$

**Profitability Ratios**

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

**Debt Ratios**

| Ratio | Numerator | Denominator |
|---|---|---|
| 1. Debt-to-equity ratio | Total Liabilities | Total equity attributable to Parent Company |
| 2. Interest coverage ratio | Earnings before interest and tax | Interest expense |

Other Disclosures:

i. **Liquidity**. To cover its short-term funding requirements, the Group intends to use internally generated funds and net proceeds of the sale of a stake in its subsidiary. The Group can also obtain additional advances from its stockholders 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 new trends, events, or uncertainties that are expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.

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

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

## 4. Description of the Nature and Scope of Business

The Corporation was duly incorporated under Philippine laws on November 26, 2001, as a technology company which creates and develops digital products and services for mobile end-users, as well as proprietary platforms for mobile operators. The Corporation provides mobile marketing and advertising solutions integrated in consumer digital products and platforms for the consumption of mobile users. The Corporation is also engaged in platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services. This includes information technology (IT) staff augmentation and various enterprise solutions-based services to Telcos and other companies for network and applications development.

As of date, the Corporation has equity interests in the following entities:

| | **Percentage of Ownership** |
|---|---|
| Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.) | 51.31% |
| Pt. Storm Benefits Indonesia | 51.31% |
| Seer Technologies Inc. | 70.00% |
| Codesignate Inc. | 52.50% |
| Xurpas Enterprise Inc. | 100.00% |
| Art of Click Pte. Ltd. | 100.00% |
| PT Sembilan Digital Investama | 49.00% |
| MatchMe Pte. Ltd. | 29.10% |
| Micro Benefits limited | 23.53% |
| Altitude Games Pte. Ltd | 21.78% |
| Altitude Games Inc. | 21.17% |
| Xeleb Technologies Inc. (formerly Fluxion, Inc.) | 67.00%[1] |
| Xeleb Inc. | 67.00%[2] |

*Products and Services*

The Corporation categorizes its product offerings in accordance with the following segments:

<u>Enterprise Services</u>

The Corporation develops, on its own or in close collaboration with other technology companies, mobile platform solutions for the benefit of clients such as Telcos, government agencies, and other top-tiered companies. The Corporation develops and customizes information technology platforms, provides system integration, mobile platform consultancy, manages off-the-shelf application and social media-related services.

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

<u>Mobile Consumer Services</u>

The Corporation creates and develops mobile consumer content and other value-added services for mobile phone subscribers such as online casual games, info-on-demand services (e.g., news, social and other entertainment information), chat and messaging applications (e.g., mobile stickers), ringtones,

[1] As of date, the Corporation owns 100% of Xeleb Technologies Inc. The Corporation has also approved to dissolve Xeleb Technologies Inc. and Xeleb Inc.
[2] Ibid.

licensed or unlicensed content such as music, videos, as well as mobile marketing and advertising solutions. In addition, for its online casual games (e.g. Grab-a-Gold, GlobeGameswithFriends and PlaySmart) and mobile casual game applications, each of which has been tailored to an internet and online consumer base, the Corporation develops and maintains its own platforms that host and enable mobile subscribers to access or use such products.

Other Services

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

Blockchain Technology

In 2018, the Corporation announced the incorporation of its wholly owned subsidiary, ODX Pte. Ltd. ("ODX"), an entity registered in Singapore, that will allow consumers in emerging markets to access the internet for free, through sponsored data packages. ODX pre-sold tokens and the proceeds from the said sale will be used to start building the ODX infrastructure and for business development.

*Competition*

For its enterprise development business, the Corporation considers Stratpoint, Pointwest, and Novare, as its main competitors, providing outsourced web and mobile applications development services or cloud services for their clients.

For its mobile consumer content development business, the Corporation competes with over 100 mobile consumer content providers. However, the Corporation believes that its primary competitors comprise the internal mobile consumer content development divisions of its own client Telcos and other companies such as Information Gateway, Inc., ABS-CBN Mobile, GMA New Media, Inc., G- Gateway, Zed, Wolfpac and Rising Tide. For its mobile marketing and advertising solutions business, the Company considers the following as competitors: TradeMob, Fiksu, Mobvista, Glispa, and Avazu.

For the Corporation's other services, which refers to the flexible benefits and performance benefits business of Storm, the main competitor is Takatack Rewards, Towers Watson, Mercer, Venteny, Kudos Canada, Globoforce, and My Checkpoints.

*Reliance on Third Parties*

As a mobile telecommunications value-added services provider, the Corporation relies on the transmission, switching and local distribution facilities of Globe Telecom, Inc. and Smart Communications, Inc. ("Telcos") to which it provides mobile digital content and services. The Telcos own, operate and maintain these transmissions, switching and local distribution facilities and the Corporation itself does not have any right to participate or intervene in the operation or maintenance thereof. In 2018, the Corporation's business was severely affected when one the Telcos implemented new and stricter opt-in guidelines for customers who sign up for VAS subscription. The Corporation's revenue from its mobile consumer services significantly declined as a result of this. The Corporation has disclosed that it is strengthening and enhancing its enterprise services and HR technology services in light of the ongoing challenges in its mobile consumer segment.

*Intellectual Property*

As the Corporation creates, develops and maintains substantially all of its mobile consumer content, the Corporation owns and holds exclusive rights to its entire product portfolio, excluding mobile consumer content in the form of licensed content such as music, videos and other content of a similar nature, which it licenses through third party licensors.

Platforms

- Key intellectual property of the Corporation includes the Griffin SMS Gateway program, which is a proprietary platform developed by the Corporation through which the Corporation deploys mobile applications through any telecommunications network protocol. The Griffin SMS Gateway program is built on a modular architecture and is written in Java, an industry standard programming language that allows the program to be deployed using most common operating systems, with the following key features:
    - The Griffin SMS Gateway allows the Corporation to connect to any of its client Telco's SMS center, which represents the heart of any Telco's wireless network handling all SMS operations, such as routing, forwarding and storing SMS messages, using popular protocols.
    - The Griffin SMS Gateway contains a "Multi-Function Middleware" feature that allows the Corporation to interface with its client Telco's "Intelligent Network", which is the network that allows a Telco to offer value-added services to its mobile subscribers on top of its standard services (voice and call services) through UCIP or Diameter, MMSCs via MM7, or billing systems via proprietary SOAP-XML or other proprietary HTTP-based protocols.
    - The Java API of the Griffin SMS Gateway allows the Corporation's application developers to write code that can easily be integrated or deployed across multiple carriers that may have different systems.

Trademarks

The Corporation likewise owns exclusive rights to its corporate name, as well as various brand names and marks that are used for its operations. Provided below is the summary of all marks registered in the name of the Corporation or any of its subsidiaries:

| Holder | Mark | Registration Number | Date Filed | Date Registered |
|---|---|---|---|---|
| Xurpas Inc. | SELFIE.PH | 42014009255 | July 25, 2014 | June 25, 2015 |
| Xurpas Inc. | GRAB-A-GOLD | 42014009260 | July 25, 2014 | December 11, 2014 |
| Xurpas Inc. | FLUXION | 42014009259 | July 25, 2014 | December 11, 2014 |
| Xurpas Inc. | PLAYSMART | 42014009254 | July 25, 2014 | December 11, 2014 |
| Xurpas Inc. | #SWAG | 42014009261 | July 25, 2014 | February 12, 2015 |
| Xurpas Inc. | #TBT | 42014009258 | July 25, 2014 | December 11, 2014 |
| Xurpas Inc. | #SELFIE | 42014009257 | July 25, 2014 | December 11, 2014 |

| | | | | |
|---|---|---|---|---|
| Xurpas Inc. | Xurpas | 42007004775 | May 11, 2007 | October 8, 2007 |
| Xurpas Inc. | Xurpas | 42017003342 | March 8, 2018 | October 5, 2017 |
| Xurpas Inc. | Xurpas | 42017003343 | March 8, 2017 | June 29, 2017 |
| Xurpas Inc. | Art of Click | 42017003340 | March 8, 2017 | August 31, 2017 |
| Xurpas Inc. | Seer | 42017003341 | March 8, 2017 | August 31, 2017 |
| Xurpas Inc. | XE | 42017003346 | March 8, 2017 | August 31, 2017 |
| Xurpas Inc. | AppXentral | 42017003344 | March 8, 2017 | June 29, 2017 |
| Xurpas Inc. | Xurpas Enterprise | 42017003345 | March 8, 2017 | June 29, 2017 |
| Xurpas Inc. | Xupergames | 42016004317 | April 25, 2016 | October 20, 2016 |
| Xurpas Inc. | Balikbayan Box It | 42017017366 | August 12, 2018 | October 26, 2017 |
| Xurpas Inc. | Xuper Tsikot | 42017017362 | October 26, 2017 | March 29, 2018 |
| Xurpas Inc. | Supernova Escape | 42017017365 | October 26, 2017 | March 29, 2018 |
| Xurpas Inc. | Beast Mode On | 42017017363 | October 26, 2017 | March 29, 2018 |
| Xurpas Inc. | Kumander Kuting | 42017017364 | October 26, 2017 | March 29, 2018 |
| Xurpas Inc. | MAKEFREE | 42017018310 | December 19, 2018 | May 5, 2019 |
| Xurpas Inc. | ODX | 42018008396 | May 21, 2018 | May 12, 2019 |
| Xurpas Inc. | X | 42018008395 | May 21, 2018 | May 12, 2019 |

*Key Licenses*

The Corporation's primary business, that is, the development and delivery of mobile consumer content to its client Telcos, is considered as a form of value-added services regulated by the NTC under the Public Telecommunications Policy Act and related implementing regulations issued by the NTC. The Corporation holds a VAS License issued by the NTC valid until January 3, 2021, pursuant to which the Corporation is authorized to engage in all of the foregoing value-added services.

*Employees*

The Corporation believes that its relationship with its employees is generally good and, since the start of its operations, the Corporation has not experienced a work stoppage as a result of any labor or labor-related disagreements. None of the Corporation's employees belong to a union. The Corporation has implemented cost-cutting measures to manage its day to day operations taking into account the challenges encountered by its mobile consumer services segment.

The table below sets forth the breakdown of the Corporation's labor complement, grouped according to function, as of November 30, 2019:

| | |
|---|---|
| Executives | 3 |
| Accounting, Finance, Human Resources and Administrative | 9 |
| Marketing | 5 |
| Technical Staff | 18 |
| Total | 35 |

As of date, the Corporation does not see any material change from the above-identified labor complement for the next twelve (12) months.

*Key Risks*

The Corporation considers the following risks material to its operations:

- **Reliance on third party transmission and distribution infrastructure.** In 2018, the Corporation's business was severely affected when Globe Telecom, Inc. implemented new and stricter opt-in guidelines for customers who sign up for VAS subscription. The Corporation has disclosed that it is strengthening and enhancing its enterprise services and HR technology services in light of the ongoing challenges in its mobile consumer segment.

- **Short Term Agreement with Telcos**. The Corporation's existing content provider agreements with its client Telcos are generally short-term in nature, with terms ranging from one to five years. In each case, there is no guarantee that such agreements will be renewed upon expiration thereof. Nevertheless, to mitigate reliance on its existing content provider agreements with such Telcos, the Corporation has acquired/invested in several foreign entities to expand its mobile operator client base to Telcos or other mobile operators outside the Philippines.

- **Ability to maximize and adapt to new technologies.** The Corporation has disclosed that its acquisition and investment in various technology entities is aimed at creating platforms that offers a marketplace of technology products that consumers can choose from. The Corporation has equipped itself with various technologies to create the necessary platforms it can offer to the consumers. The Corporation's success will depend on its ability to maximize the potentials of these acquired technologies. Moreover, since the technology industry continues to develop at a robust pace, the Corporation will need to consider as part of its growth strategy that these technologies will need to be consistently updated, enhanced or developed to minimize risk on these becoming obsolete or impractical.

*Properties*

The Corporation does not hold any real property of material value. The Group has entered into various lease agreements with third parties for the office space it occupies.

The Corporation's (*parent company*) office is presently located at 7$^{th}$ Floor, Cambridge Centre Building, 108 Tordesillas St., Salcedo Village, Makati City, Philippines, which is leased by the Corporation from Gervel, Inc. The lease contract is for a period of three (3) years commencing on April 1, 2017 and expiring on March 21, 2020. The applicable rate per month is Php0.27 million, with a corresponding annual increase of 4%.

*See Note 20 of the Unaudited Consolidated Financial Statements as of September 30, 2019 for the Operating Lease Commitments of the Group.*

*Legal Proceedings*

There are no material pending legal proceedings (including any bankruptcy, receivership or similar proceedings) to which the Corporation or any of its subsidiaries is a party or to which any of their material assets are subject.

## 5. Directors' and Officers' Background

*Board of Directors, Independent Directors and Executive Officers*

The following directors and officers were elected during the 2019 Annual Stockholders' Meeting and 2019 Organizational Meeting both held on November 8, 2019:

| Directors / Officers | Nationality | Position | Year Position was Assumed |
|---|---|---|---|
| Nico Jose S. Nolledo | Filipino | Chairman | 2001 |
| Alexander D. Corpuz | Filipino | Executive Director, President, Chief Information Officer and Chief Finance Officer | 2019 |
| Fernando Jude F. Garcia | Filipino | Executive Director, Treasurer and Chief Technology Officer | 2001 |
| Mercedita S. Nolledo | Filipino | Non-Executive Director | 2001 |
| Wilfredo O. Racaza | Filipino | Non-Executive Director | 2001 |
| Jonathan Gerard A. Gurango | Filipino | Independent Director | 2014 |
| Mark S. Gorriceta | Filipino | Corporate Secretary, Chief Legal Officer and Chief Compliance Officer | 2014 |

*Background Information*

**Nico Jose S. Nolledo**, Filipino, 43, has been the Chairman and Director of the Corporation since 2001. He is the first Filipino Entrepreneur chosen by the Endeavour network. He is also the Ernst and Young's 2015 Philippine Entrepreneur of the year and was chosen as one of The Outstanding Young Men ("TOYM") in the Philippines in 2015. Mr. Nolledo holds a Bachelor of Science degree in Management from Ateneo de Manila University.

**Alexander D. Corpuz**, Filipino, 53, was appointed as Director and President of the Corporation effective February 1, 2019. He has also been the Corporation's Chief Finance Officer since 2014 and Chief Information Officer since 2018. Mr. Corpuz has 29 years of experience in the field of finance, ten years of which was in investment and commercial banking. He was Vice President of Bank of America in 2001, before serving as CFO for Liberty Telecoms, Information Gateway, Mañosa Group of Companies and Hatchd Inc. Mr. Corpuz holds a Bachelor of Science in Business Administration degree from University of the Philippines, Diliman, Cum Laude. He obtained his Masters in Business Management from the Asian Institute of Management, Makati City. He is a member of the Financial Executives Institute of the Philippines (FINEX).

**Fernando Jude F. Garcia**, Filipino, 46, has been the Chief Technology Officer and Director of the Corporation since 2001. He was also appointed as Treasurer effective February 1, 2019. He also served as Corporate Secretary of the Corporation until December 2014. He created the Corporation's Griffin Platform, the mobile consumer content gateway and platform for all of the Corporation's mobile consumer content products and services. He also created the Corporation's modular middleware system that can easily integrate with any modern billing gateway. He is the chief engineer responsible for the Corporation's software architecture and systems integration. Examples of such systems and protocols are the following: SMS (CIMD2/EMI-UCP/SMPP), MMS (EIAF/MM7), Voice Services (SIP), Billing/IN (Diameter/UCIP/ParlayX2.1), Security (IPSEC), Publish-subscribe Systems and Video Streaming (RTMP/HLS) and blockchain technology (BTC/ETH). He is also responsible for architecting the Corporation's fully Cloud-based system infrastructure. Before founding the Corporation, he was a software developer in iAyala. Mr. Garcia holds a Bachelor of Science degree in Applied Physics from the University of the Philippines in Diliman, Quezon City.
ant

**Wilfredo O. Racaza**, Filipino, 71, has been a Director of the Corporation since 2001.Mr. Racaza has 49 years of marketing and finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. He previously worked as an insurance executive in Manulife Financial Philippines for 33 years. He is a Registered Financial Consultant (Graduated Cum Laude in May 2015). He has garnered numerous accolades and multiple awards such as Branch of the Year recognitions and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to Present. Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University (Ateneo de Cagayan) in Cagayan de Oro City.

**Mercedita S. Nolledo**, 78, Filipino, has been a Director of the Corporation since 2001. Atty. Nolledo is currently a director of Bank of the Philippine Islands, BPI Family Savings Bank and BPI Capital Corporation, Anvaya Golf and Nature Club, Inc., BPI Asset Management & Trust Corporation and Michigan Holdings, Inc. She is the Chairman of BPI Investment Management Corporation. She is currently an independent director of D&L Industries, Inc. She is a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. She has served as a director of Cebu Holdings, Inc. from 1993 to 2006 and of Ayala Corporation from 2004 to 2010. Atty. Nolledo was formerly Corporate Secretary and General Counsel of the Ayala Group of Companies and the Senior Managing Director of the Ayala Corporation. She served as Executive Vice President, director and Corporate Secretary of Ayala Land, Inc. and as the firm’s Treasurer. Atty. Nolledo placed second in the Certified Public Accountant exams in 1960 and also placed second in the 1965 bar exams. She holds a Bachelor of Science degree in Business Administration, magna cum laude, from the University of Philippines. Atty. Nolledo holds a Bachelor of Laws degree, cum laude, from the University of the Philippines.

**Jonathan Gerard A. Gurango**, 62, Filipino, has been an independent director of the Corporation since 2014. Mr. Gurango has a solid track record in forming and running successful software companies. He founded Match Data Systems (MDS) in Seattle, USA in 1987, MDS Philippines in 1991, and MDS Australia in 1996. In 1999, he sold MDS to Great Plains Software, which was acquired by Microsoft in 2001. Mr. Gurango served as the Asia Pacific Regional Director for Microsoft Business Solutions, before he left in 2003 to form Gurango Software. In 2007, he was inducted into the Hall of Fame for Microsoft's Most Valuable Professionals, in recognition of his mastery of software technology and business. In 2006, the Philippine Center for Entrepreneurship acknowledged him as one of the country's Ten Most Inspiring Technopreneurs. In addition to leading Gurango Software as the most successful Microsoft Dynamics partner in the Philippines, he has co-founded several other software start-ups such as SPRING.ph, and was the President of the Philippine Software Industry Association from 2013 to 2014. Mr. Gurango studied Industrial Engineering at the University of the Philippines, Diliman, Quezon City. He also studied Electrical Engineering at the University of Washington, Seattle, Washington, USA.

**Mark S. Gorriceta,** 41, Filipino, has been the Corporate Secretary and Chief Legal Officer of the Corporation since 2014. He was also appointed as Chief Compliance Officer of the Corporation in 2018. Atty. Gorriceta has been in the practice of law for fourteen years. He acts as legal counsel to several other listed companies, its subsidiaries or affiliates. Atty. Gorriceta also serves as Chief Legal Counsel and/or Corporate Secretary to several leading online and tech companies in the Philippines. He is the Managing Partner and heads the Corporate Group of Gorriceta Africa Cauton & Saavedra. A member of the Philippine Bar since 2005, he holds a Bachelor of Arts, Political Science degree from the Ateneo de Manila University. He also attended certificate courses in Finance at the Asian Institute of Management in Makati City.

*Significant Employees*

The Corporation values the contribution of each employee no matter how big or small and considers all its employees significant. There is no “significant employee” as defined in the SRC.

*Family Relationships*

Mr. Nico Jose S. Nolledo, Chairman, is the son of Atty. Mercedita S. Nolledo, a director.

There are no family relationships between the current members of the Board and the key officers other than the above.

*Involvement in Certain Legal Proceedings*

There are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Corporation or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency.

As of this report, the Corporation is not a party to any litigation or arbitration proceedings of material importance, which could be expected to have a material adverse effect on the Corporation or on the results of its operations. No litigation or claim of material importance is known to be pending or threated against the Corporation or any of its properties.

*Certain Relationships and Related Transactions*

In the conduct of its day-to-day business, the Corporation engages in related party transactions such as service and licensing agreements, always at arms-length and taking into consideration the best interest of the Corporation.

The Corporation has secured loans from its key shareholders. On February 20, 2019, the board of directors approved the execution of a loan agreement wherein the key shareholders of the Corporation agreed to extend an aggregate of Php150 million loan to be used to fund enterprise projects and for general corporate purposes.

See Note 21 of the Corporation's Interim Financial Statements as of September 30, 2019 for a detailed discussion of the related party transactions entered into by the Corporation.

*Ownership Structure and Parent Corporation*

As of October 31, 2019, the founders, Mr. Nico Jose S. Nolledo and Mr. Fernando Jude F. Garcia, own 36.69% of the Corporation. They actively manage the Corporation's business activities. Mr. Raymond Gerard S. Racaza, also a founder but has resigned from any management role, owns 20.07% of the Corporation. Xurpas Inc. has no parent company.

*Resignation of director*s

Mr. Raymond Gerard S. Racaza has resigned as Director effective January 30, 2019. Mr. Alvin D. Lao has resigned as Independent Director effective May 22, 2019. Mr. Raymond Gerard S. Racaza and Mr. Alvin D. Lao does not have any known disagreement with the Corporation's affairs and they resigned for personal reasons.

## 6. Market Price and Dividends on the Corporation's common shares

A. Market Information

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

The following table shows the high and low prices (in PHP) of Xurpas' shares in the PSE for the year 2017, 2018 and first three quarters of 2019:

| | High | Low |
|---|---|---|
| **2019** | | |
| 3rd Quarter | 1.19 | 0.87 |
| 1st Quarter | 2.33 | 1.09 |
| 2nd Quarter | 1.37 | 0.91 |
| 3rd Quarter | 1.04 | 0.87 |
| **2018** | | |
| 1st Quarter | 5.93 | 3.10 |
| 2nd Quarter | 3.92 | 3.00 |
| 3rd Quarter | 3.72 | 2.02 |
| 4th Quarter | 2.39 | 1.04 |
| **2017** | | |
| 4th Quarter | 5.94 | 3.10 |
| 3rd Quarter | 9.07 | 5.20 |
| 2nd Quarter | 10.54 | 7.40 |
| 1st Quarter | 10.50 | 7.09 |

The market capitalization of the Corporation's common shares as of end-2018, based on the closing price of ₱1.72/share, was approximately ₱3.22 billion versus ₱10.05 billion the previous year.[3]

The price information of Xurpas' common shares as of the close of the latest practicable trading date, January 24, 2020, is ₱0.89.

B. Holders

There are twenty six (26) registered holders of common shares, as of December 31, 2019 (based on number of accounts registered with the Stock Transfer Agent)[4].

[3] *Xurpas has 1,871,830,210 common shares outstanding as of August 31, 2019.*
[4] *Based on the list of stockholders issued by BDO Unibank Inc. Stock and Investment Group; list includes PCD Nominees*

| | Stockholder's Name | Number of shares | Percentage to total | Nationality |
|---|---|---|---|---|
| 1. | PCD Nominee Corp. (Filipino)[5] | 1,415,893,303 | 75.25 | Filipino |
| 2. | PCD Nominee Corp. (Non-Filipino) | 290,961,734 | 15.46 | Others |
| 3. | Raymond Gerard S. Racaza | 174,100,010 | 9.00 | Filipino |
| 4. | Nelson Gatmaitan | 400,000 | 0.02 | Filipino |
| 5. | Emilie Grace S. Nolledo | 251,889 | 0.01 | Filipino |
| 6. | Xurpas Inc. | 53,298,242 | 2.75 | Filipino |
| 7. | Aquilina V. Redo | 6,500 | 0 | Filipino |
| 8. | Rogina C. Guda | 6,000 | 0 | Filipino |
| 9. | Dahlia C. Aspillera | 2,900 | 0 | Filipino |
| 10. | Mercedita S. Nolledo | 1,060 | 0 | Filipino |
| 11. | Wilfredo O. Racaza | 1,060 | 0 | Filipino |
| 12. | Roberto B. Redo | 1,000 | 0 | Filipino |
| 13. | Shareholders' Association of the Philippines, Inc. | 1,000 | 0 | Filipino |
| 14. | Frederick D. Go | 500 | 0 | Filipino |
| 15. | Dondi Ron R. Limgenco | 111 | 0 | Filipino |
| 16. | Marietta V. Cabreza | 100 | 0 | Filipino |
| 17. | Milagros P. Villanueva | 100 | 0 | Filipino |
| 18. | Myra P. Villanueva | 100 | 0 | Filipino |
| 19. | Myrna P. Villanueva | 100 | 0 | Filipino |
| 20. | Philip &/or Elnora Turner | 99 | 0 | British-Indian |
| 21. | Fernando Jude F. Garcia | 10 | 0 | Filipino |
| 22. | Jonathan Gerard A. Gurango | 10 | 0 | Filipino |
| 23. | Alvin D. Lao | 10 | 0 | Filipino |
| 24. | Nico Jose S. Nolledo | 10 | 0 | Filipino |
| 25. | Owen Nathaniel S. AUITF: Li Marcus Au | 3 | 0 | Filipino |
| 26. | Joselito T. Bautista | 1 | 0 | Filipino |
| | **Total** | **1,934,925,852[6]** | **100%** | **Filipino** |

C. Dividends and Dividend Policy

*Dividend History*

Information on the Corporation's declaration of dividends follow:

| Parent Company | Per Share | Total Amount | Record Date | Payable Date |
|---|---|---|---|---|
| **Cash dividend declared on:** | | | | |
| May 8, 2017 | 0.05 | 92.85 million | May 23, 2017 | June 15, 2017 |
| May 10, 2016 | 0.048 | 86.27 million | May 31, 2016 | June 23, 2016 |
| April 29, 2015 | 0.40 | 68.80 million | May 14, 2015 | June 2, 2015 |

[5]*PCD Nominee Corp. (Filipino) includes shares of a) Mr. Nico Jose S. Nolledo; b) Raymond Gerard S. Racaza; and c) Fernando Jude F. Garcia. We note that a portion of shares of Messrs. Nolledo, Racaza and Garcia are not yet listed with the Exchange, but are included in PCD Nominee Corp. (Filipino). Further, PCD Nominee Corp. (Filipino) includes treasury shares.*

[6] *This includes Treasury Shares*

| | | | | |
|---|---|---|---|---|
| September 20, 2014 | 0.56 | 36.00 million | June 30, 2014 | September 30, 2014 |
| June 5, 2014 | 0.47 | 30.25 million | December 31, 2013 | June 30, 2014 |
| November 18, 2013 | 5.13 | 16.67 million | September 30, 2013 | November 29, 2013 |
| July 22, 2013 | 1.03 | 3.33 million | June 30, 2013 | July 31, 2013 |
| May 6 2013 | 0.83 | 2.70 million | December 31, 2012 | May 31, 2013 |
| March 13, 2013 | 3.08 | 10.00 million | December 31, 2012 | March 31, 2013 |
| | | | | |
| **Stock dividend declared on:** | | | | |
| July 10, 2014 | 0.95 shares | 61.25 million | September 20, 2014 | September 20, 2014 |
| May 5, 2014 | 18.85 shares | 61.25 million | May 5, 2014 | May 5, 2014 |
| | | | | |

*Dividend Policy*

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

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

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

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

On April 26, 2016, the Board of Directors of Xurpas approved the holding of a Placing and Subscription Transaction ("the Overnight Top-up Placement") wherein Messrs. Nico Jose S. Nolledo, Raymond Gerard S. Racaza and Fernando Jude F. Garcia (the "Selling Shareholders") sold an aggregate of 155,400,000 common shares (the "Offer Shares") to investors (the "Placing tranche") at a price of Php16.00 per share and the Selling Shareholders subscribed to an aggregate of 77,700,000 common shares (the "Subscription Shares") or 4.32% of the new issued and outstanding capital shares of the Corporation ("Subscription tranche") also at Php16.00 per share. The Corporation raised approximately Php1.2 billion from the said issuance of shares.

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

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

The Placement Agents received an aggregate selling fee equal to 1.5% of the gross proceeds of the Offer.

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

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

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

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

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

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

On June 2017, amendments were made to the share purchase agreement with one of the sellers, Emmanuel Michel Jean Allix ("Allix"), which (a) resulted in the payment of US$7.24 million or 358.50 million, (b) changed the manner of payment of the Installment Payment payable and Deferred Purchase

Consideration from being partly in cash and Xurpas shares to solely in cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year.

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

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

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

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

The Company relied on Section 10.1(k) of the Securities Regulation Code, as basis for claiming exemption for the issuance of the said shares in favor of Emmanuel Michel Jean Allix and Wavemaker Labs Pte. Ltd

## 7. External Audit Fees

The Corporation’s external auditor or independent public accountant of the Corporation, Sycip Gorrres Velayo &Co., was reappointed during the Annual Stockholders’ Meeting held on November 8, 2019.

The aggregate fees billed for each of the last two calendar years for professional services rendered by the external auditor were ₱1,800,000 and ₱1,056,000 for 2018 and 2017, respectively.

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

No action is to be taken with respect to this item during the Special Stockholders’ Meeting.

Nonetheless, the representatives of the principal accountant are expected to be present at the Special Stockholders’ Meeting and may also respond to appropriate questions with respect to matters for which their services were engaged.

## 8. Compliance with leading practices on Corporate Governance

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

The Corporation has undertaken assessment and performance evaluation exercises in relation to its policies for the purpose of monitoring compliance.

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

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

*Plans to improve*

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

**MINUTES OF THE 2019 ANNUAL STOCKHOLDERS' MEETING**
November 8, 2019 at 9:00 a.m.
Makati Sports Club, L.P. Leviste Corner Gallardo Streets
Salcedo Village, Makati City

**Stockholders Present:**

Total No. of Shares of Outstanding as of Record Date: 1,871,830,210
Total No. of Shares of Stockholders Present/Represented by Proxy: 1,078,340,753
Percentage of Shares Present & Represented by Proxy: 57.61%

**Directors Present:**

Mr. Nico Jose S. Nolledo, *Chairman*
Alexander D. Corpuz, *President, Chief Finance Officer, and Chief Information Officer*
Fernando Jude F. Garcia, *Director, Treasurer, and Chief Technology Officer*
Atty. Mark S. Gorriceta, *Corporate Secretary, Chief Legal Officer and Chief Compliance Officer*

**Also Present:**

Atty . Mercedita S. Nolledo, *Director*
Mr. Wilfredo O. Racaza, *Director*

## I. CALL TO ORDER

After the Philippine National Anthem, Mr. Alexander D. Corpuz ("**Mr. Corpuz**"), the President of **Xurpas Inc.** (the "**Corporation**"), called the meeting to order. He welcomed the stockholders, members of the board of directors (the "**Board**") and the officers of the Corporation to the 2019 Annual Stockholders' Meeting.

Atty. Mark S. Gorriceta ("**Atty. Gorriceta**"), the Corporate Secretary, recorded the minutes of the meeting.

## II. NOTICE OF MEETING AND DETERMINATION OF QUORUM

Atty. Gorriceta certified that written notice of the time, date, place and purpose of the meeting was sent by courier to all the stockholders of record as of September 6, 2019 in accordance with the provisions of the By-Laws of the Corporation and all other applicable rules.

He likewise certified that stockholders owning 1,078,340,753 shares or 57.61% of the 1,871,830,210 outstanding shares as of September 6, 2019 are present in person or by proxy. Therefore, there is a quorum for the meeting.

## III. PROCEDURES FOR DISCUSSION AND VOTING

Mr. Corpuz requested Atty. Gorriceta to explain the rules of conduct and voting procedures to facilitate the orderly flow of the meeting.

Atty. Gorriceta then explained the procedure for discussion and voting. Any stockholder who wishes to ask a question or give a comment is required to raise his hand to be recognized. After being acknowledged by the Chairman of the Meeting, the stockholder shall proceed to the microphone and identify himself. Atty. Gorriceta also stated that only questions related to the relevant item in the agenda will be entertained.

Each stockholder was given a ballot to be used for voting upon registration at the meeting. Accomplished ballots shall be dropped into the ballot box provided at the registration area. The cut-off time for dropping the ballots is before we take up the next item in the agenda, which is the approval of the minutes of the previous stockholders' meeting. After which, the Corporation's representatives will secure the ballot box, and will commence the tabulation of the votes in the designated tabulation area. No ballots dropped beyond the cut-off time shall be accepted or counted.

Each outstanding share of stock entitles the registered stockholder to one vote. For the election of directors, stockholders may cumulate their votes and the candidates receiving the highest votes will be declared elected. For all other matters to be taken up, the affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented during the meeting will be needed to approve each resolution.

Atty. Gorriceta informed the stockholders that the voting process was also explained in the Corporation's By- Laws and the Information Statement sent to all stockholders of record.

## IV. APPROVAL OF THE MINUTES OF THE JULY 17, 2018 ANNUAL STOCKHOLDERS' MEETING

Mr. Corpuz then proceeded with the first item in the agenda, which is the approval of the minutes of the previous Annual Stockholders' Meeting held on July 17, 2018.

Atty. Gorriceta stated that copies of the minutes of the Annual Stockholders' Meeting held on July 17, 2018 have been provided to the stockholders before the meeting. Thereafter, Mr. Corpuz requested for a motion for the approval of the minutes.

On motion of Ms. Gianheena Rosal, seconded by Ms. Sarah Mae M. Espina, the stockholders approved the minutes of the previous meeting and adopted the following resolution:

> "RESOLVED, to approve the minutes of the Annual Stockholders' Meeting held on July 17, 2018."

## V. ANNUAL REPORT OF THE PRESIDENT AND THE PRESENTATION OF THE 2018 AUDITED FINANCIAL STATEMENTS

Mr. Corpuz then informed the stockholders that the next item in the agenda is the Annual Report of the President.

**2018 Financial Performance Highlights**

Mr. Corpuz began his discussion with the 2018 financial performance highlights of the Corporation. He informed the stockholders that there was a 41% decline in the revenues of the Corporation from Php2.1 Billion in 2017 to Php1.2 Billion in 2018. He explained that the increase in the business of Xurpas Enterprise Inc. ("**Xurpas Enterprise**") was not sufficient to offset the weakened consumer business.

He also informed the stockholders that there was an improvement in the over-all enterprise business of the Corporation by 31%, which can be attributed to the improvement in Yondu's enterprise business by 35%, particularly, the IT Staffing business. The enterprise business segment now comprises 68% total revenues of the Corporation.

Because of the two (2) industry reshaping events experienced in 2018, specifically the new opt—in procedures implemented by one telco to all of its VAS providers and ad frauds, the Corporation's mobile consumer revenues declined by eighty percent (80%). On the other hand, Other Services, which refers to Storm Technologies, Inc. ("Storm"), recorded a 4% decrease in its revenues.

The resulting net loss of Php812 Million in 2018 is attributable to the following:

1. Drastic drop in revenues leading to operating losses;
2. Provision for bad debt of Art of Click Pte. Ltd. ("**AOC**");
3. Impairment of goodwill that was recorded for AOC; and
4. Recognition on the effect of the new accounting standard - PFRS 9.

He further stated that the provision for the impairment of receivables can be recovered when they are collected, while the impairment of goodwill can be recovered once the financial performance of AOC improves.

**1st Half 2019 Financial Performance Highlights**

Mr. Corpuz proceeded to discuss the financial performance of the Corporation for the first half of 2019.

He discussed that the Corporation ended with a Php640 Million revenue for the first half of 2019, which is a five percent (5%) increase in the revenues from Php609 Million during the first half of 2018. He reiterated that this can be attributed to the increase in the revenues of the Enterprise business, which now comprises of 89% of the total revenues.

He further stated that the 5% increase in total revenues can be attributed to the following: 50% increase in Enterprise revenues, which now comprise 89% of total revenues; Other services increasing its revenues by 22% (now contributing 8% of the total revenues); and decline in mobile consumer revenues. In the first half of 2018, the Corporation still had VAS revenues from Globe Telecom, Inc. ("Globe") and more revenues from AOC. However, for the year 2019, Mr. Corpuz informed the stockholders that the Corporation had very minimal VAS revenues from Smart and even less from Globe, and continued depleted revenues from AOC.

To highlight and give more detail on the enterprise revenues, Mr. Corpuz said that this was largely brought about by the 52% increase in Yondu's enterprise revenues, from Php351 million in the first half of 2018 to Php534 million for the first half of 2019. The increase in Yondu's enterprise revenues is a result of the incremental revenues from one of its clients, Accenture.

Moreover, Mr. Corpuz stated although the Corporation suffered a net loss of Php115m loss, it is still a 20% improvement from the Php144 million loss the previous year.

**Dividend Policy**

Mr. Corpuz informed the stockholders that it is the Corporation's dividend policy that stockholders may be entitled to receive dividends equivalent to thirty percent (30%) of the prior year's net income after tax, subject to the availability of unrestricted retained earnings. However, considering the Corporation's current financial performance, Mr. Corpuz emphasized that the Corporation cannot provide an assurance on when dividends will be paid. He then assured the stockholders that Management is exerting efforts to improve its financial performance to be able to increase shareholder value and consequently, declare dividends.

**Related Party Transactions Policy**

Mr. Corpuz also informed the stockholders that the Board has formalized the Corporation's related party transactions policy which was adopted on October 28, 2019. The policy provides that all related party transactions shall be conducted:

1. At arm's length, which would serve only to the best interests of the Company and accordingly, its stockholders;
2. Fairly and with transparency;
3. With no particular group or individual who will benefit at the expense of any of the public investors or minority shareholders; and
4. Ensure that transactions are properly approved and disclosed in accordance with applicable laws, rules and regulations.

Mr. Corpuz also provided an update to the Stockholders regarding the Corporation's most recent disclosures. He mentioned that the Corporation recently disclosed the sale of its 51% shareholdings in Yondu to Globe. He said that the proceeds from the sale will be used for the following:

- Retirement of Xurpas loans
- Increase liquidity
- Focus on high-value, emerging, innovative, and disruptive technologies and platforms impacting both enterprise and consumer commerce

He also disclosed to the stockholders the dissolution of Xeleb Technologies Inc. and Xeleb Inc. He said that the dissolution is due to the following:

- The two entities do not have any significant contribution to Xurpas Group; and

- All residual business will be consolidated into the parent company instead of maintaining a separate entity.

## VI. MESSAGE OF THE CHAIRMAN OF THE BOARD

Mr. Corpuz stated that the next item in the agenda is the message from the Chairman of the Board, **Mr. Nico Jose S. Nolledo** ("**Mr. Nolledo**").

Mr. Nolledo began his message by stating that the Corportion has been listed with the Philippine Stock Exchange since 2014. He said that the Corporation encountered difficulties in balancing long term growth vis-à-vis short term quarter on quarter returns.

He discussed with the stockholders that over the past year, the Board has implemented a reorganization measure for the Group with the end goal of having a stronger balance towards more predictable returns coming from Enterprise services, while still maintaining the technology upside. Mr. Nolledo said that the Board believes that the Enterprise business will serve as a significant anchor for the Corporation considering that a lot of companies nowadays are investing heavily in digital transformation initiatives. He shared that AOC has executed licensing agreements with third parties for its software. Meanwhile, Storm has also expanded its sources of revenues by offering fixed licensing fees as part of its strategy to strengthen its enterprise services. Altitude Games Pte. Ltd and Altitude Inc. ("Altitude Games") continue to publish games, both online and in the blockchain, and have also outsourcing agreements with third parties, such as Animoca Brands, Kongregate and PikPok games. The outsourcing agreements allow Altitude Games to generate a steady income stream that enables them to cover their overhead expenses.

Mr. Nolledo proceeded to discuss the Corporation's most recent disclosure – the acquisition of a holding company which will have equity interest in several US Management entities of Wavemaker. He gave the shareholders a background on Wavemaker. He said that Wavemaker is based in the United States, and has over two hundred thirty (230) investments globally. Wavemaker has about $210 Million assets under management, twenty five (25) full-time personnel, three (3) funds and a sidecar fund. He also mentioned that Wavemaker has gotten a top decile fund performance for the last sixteen (16) years, and is one of the original venture funds in Southern California. It is affiliated with several Venture Capitalists (VC), angel groups and corporates in North America, and boasts of a diversified portfolio.

According to Mr. Nolledo, two (2) of the three (3) general partners of Wavemaker are Filipino, and the third one is an American. Messrs. Eric Manlunas, Paul Santos and James Jordan were technology entrepreneurs who have successfully exited their respective businesses. As such, they have experiences not only on the fund management side, but are also able to connect with the CEOs and founders of the companies they invest in.

Wavemaker's performance over the last sixteen (16) years shows that their funds have outperformed the top quarter PE and top quarter VC funds in the United States. In its existing portfolio, it is evident that there are a lot of unrealized gains and multiples based on the last round of investment evaluation in their investment companies.

Mr. Nolledo added that one of Wavemaker's General Partners, Mr. Eric Manlunas, is a member of the Board of Draper Venture Network. Tim Draper, the investor of the Draper Venture Network, has a wide range of investments, including but not limited to Twitter, Hotmail, Tesla, SpaceX, Box, Tumblr and several iconic technology businesses. This network is across sixty (60) cities, has twenty two (22) funds, with over eight hundred (800) companies, and collectively manages over USD2 billion in assets under management. Through the Draper Venture Network, Wavemaker has worldwide access to the tech industry.

Mr. Nolledo likewise explained that over the last decade, technology start-ups have been relying on funding from venture capital investors. As such, the VCs have been enjoying these substantial returns generated by the growth of these fast-growing technology companies. Opening up this business model provides the public investors access to these investment opportunities.

He also shared that the Corporation can earn from the following from its investment in Wavemaker: (1) through management fees, regardless of the performance of the start-ups that they invest in; and (2) through Profit share from the performance of the assets that the management company has invested into.

To summarize, Mr. Nolledo said that Wavemaker is a venture capital firm with over two hundred thirty (230) technology investments globally and over $210 million in assets under management. It has a proven track record that has outperformed its peer group over various economic cycles, and is a prominent member of the Draper Venture Network, giving it access to global technology opportunities not readily available to Philippine investors. It also has a number of blue chip, institutional and family investors that add credibility to the reputation of their firm.

Mr. Nolledo identified benefits of the deal to investors in Southeast Asia as follows:

1. Opens up the private tech market to investors;
2. Gives investors access to global venture capital opportunities;
3. Allow retail investors to participate in the value creation brought by the global digital revolution;
4. Provides access to proprietary deal flow, top-tier investment opportunities and an expanded capital base; and
5. Gives the Corporation a steady stream of management and performance fees.

One of the stockholders expressed his concern that Mr. Nolledo's report might be too optimistic, given that investors has lost a substantial amount of their investments since the Corporation's initial public offering. He clarified how much money will be left in the Corporation after the disclosed transactions. Mr. Corpuz admitted that there will be a loss on the sale of Yondu since it has contributed around 65-70% of the Corporation's expenses. He then assured the shareholder that the Corporation will have revenues from the other existing subsidiaries and/or affiliates within the group.

The same stockholder inquired on the amount which the Corporation expects to earn from commissions, pursuant to the acquisition of Wavemaker. Mr. Nolledo said that Wavemaker is entitled to management fees equivalent to 2% from the assets under management.

The said stockholder continued to inquire if there is a projection on revenues to be contributed by Wavemaker. Mr. Nolledo responded that since he cannot provide projections, he will share historical figures. He noted however that this is not an assurance that the same amount will be earned by Wavemaker. He said that historically,  Wavemaker has an average rate of return at a rate of 2x to 4x across all the funds that they have managed over the last 16 years.

Another stockholder asked for a clarification on the management fee. He asked if the management fee will be collected on an annual basis, to which Mr. Nolledo answered in the affirmative.

Mr. Corpuz asked for a motion for the noting of the annual report, and to approve the 2018 Consolidated Audited Financial Statements of the Corporation as of December 31, 2018, as audited by Sycip Gorres Velayo & Co.

On motion of Ms. Sarah Mae M. Espina, seconded by Mr. Alfonso A. Tagaysay, the stockholders noted that the 2018 annual report and the presentation of the 2018 Consolidated Audited Financial Statements, and adopted the following resolution:

> "RESOLVED, to note the Corporation's Annual Report and to approve the consolidated Audited Financial Statements of the Corporation as of December 31, 2018, as audited by Sycip Gorres Velayo & Co."

## VII. ELECTION OF DIRECTORS

Mr. Corpuz stated that the next item in the agenda is the election of the members of the Board for the ensuing year. He called on Atty. Gorriceta to explain the nomination process.

Atty. Gorriceta enumerated the names of the following nominees to the Board which have been accepted by the Corporation's Nomination Committee:

1. Nico Jose S. Nolledo;
2. Alexander D. Corpuz;
3. Fernando Jude F. Garcia;
4. Mercedita S. Nolledo;
5. Wilfredo O. Racaza; and
6. Jonathan Gerard A. Gurango, *Independent Director*.

Atty. Gorriceta mentioned that all nominees possessed all the qualifications and none of the disqualifications under the Corporation's By-Laws and Manual on Corporate Governance and are eligible to be nominated and elected as directors of the Corporation. The qualifications of the directors are provided in the Information Statement which was sent to the stockholders as of record date and disclosed through the PSE Edge portal. For directors' compensation, directors receive a standard per diem of Php20,000.00 for every meeting attended while the Chairman is entitled to a per diem of Php25,000 for every meeting. Non-executive directors have no compensation aside from their per diem, while directors who hold executive positions receive compensation in addition to their per diem.

Mr. Corpuz then opened the floor for questions or comments. There being no questions or comments, he asked Atty. Gorriceta to report the results of the election.

Atty. Gorriceta stated that based on the partial tabulation of votes, each of the six (6) nominees has garnered at least 1,073,067,542 votes. Given this, he certified that each nominee has received enough votes for election to the Board.

Mr. Corpuz then asked for a motion for the adoption of a resolution declaring the election of the six (6) nominees.

On motion by Ms. Esther Laban, seconded by Ms. Ella Malapitan, the stockholders approved the election of the directors and adopted the following resolution:

> **"**RESOLVED, to elect the following as directors of the Corporation to serve as such beginning today until their successors are elected and qualified:
>
> Nico Jose S. Nolledo
> Fernando Jude F. Garcia
> Alexander D. Corpuz
> Mercedita S. Nolledo
> Wilfredo O. Racaza
> Jonathan Gerard A. Gurango ( Independent Director)"

On behalf of the elected directors, Mr. Corpuz thanked the stockholders for their continued trust and support.

## VIII. APPOINTMENT OF THE EXTERNAL AUDITOR

Mr. Corpuz informed the stockholders that the next item in the agenda is the appointment of the Corporation's External Auditor. He also stated that the Audit Committee has evaluated the performance of the Corporation's current External Auditor, **Sycip Gorres Velayo & Co.** ("**SGV**"). which has been the Corporation's External Auditor since 2008.

Based on the recommendations of the Audit Committee, the Board has agreed to endorse the appointment of SGV as the External Auditor of the Corporation for the current fiscal year.

There being no questions or comments, on motion of Mr. Alfonso A. Tagaysay, seconded by Ms. Gianheena Rosal, the stockholders approved the re-election of SGV as the external auditor of the Corporation for the current fiscal year and approved SGV's audit fee, and adopted the following resolution:

> "RESOLVED, as endorsed by the Board of Directors, to approve the re-appointment of Sycip Gorres Velayo & Co. as the Corporation's External Auditor for the year 2019."

## IX. ADJOURNMENT

There being no other business to discuss, on motion of Ms. Sarah Mae Espina, seconded by Ms. Ella Malapitan, the meeting was adjourned.

# COVER SHEET

SEC Registration Number

| A | 2 | 0 | 0 | 1 | 1 | 7 | 7 | 0 | 8 | |
|---|---|---|---|---|---|---|---|---|---|---|

Company Name

XURPAS INC. AND SUBSIDIARIES

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

7th Floor, Cambridge CeNtRe 108 Tordesillas St. SalceDo Village, Makati City

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

## COMPANY INFORMATION

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

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| **26** | **2nd Monday of May** | **September 30** |

## CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| **Alexander D. Corpuz** | **mar@xurpas.com** | **889-6467** | **N/A** |

Contact Person's Address

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

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

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

111112019002488

# SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
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Company Information

| | |
|---|---|
| SEC Registration No. | A200117708 |
| Company Name | XURPAS INC |
| Industry Classification | |
| Company Type | Stock Corporation |

**Document Information**

| | |
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| Document ID | 111112019002488 |
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| No. of Days Late | 0 |
| Department | CFD |
| Remarks | |

**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2019**

2. Commission identification number **A200117708**

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

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

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

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

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

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

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

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

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common Shares** | **1,871,355,210** |

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 September 30, 2019 (with Comparative Audited Consolidated Statements of Financial Position as at December 31, 2018)

Unaudited Interim Condensed Consolidated Statements of Income and Comprehensive Income
For the Nine-Month Periods Ended September 30, 2019 and 2018

Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the Nine-Month Periods Ended September 30, 2019 and 2018

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the Nine-Month Periods Ended September 30, 2019 and 2018

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 at September 30, 2019 and December 31, 2018 and performance for the nine-month periods ended September 30, 2019 and 2018. The primary objective of this MD&A is to help the readers understand the dynamics of the Company's business and the key factors underlying the Company's financial results.

The MD&A as of and for the nine-month period ended September 30, 2019 and 2018 should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes.

## PART I--FINANCIAL INFORMATION

### Item 1. – FINANCIAL STATEMENTS

# XURPAS INC. AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Notes 5 and 26) | **₱281,054,557** | ₱177,396,187 |
| Accounts and other receivables (Notes 6 and 26) | **63,529,625** | 530,636,685 |
| Contract assets (Note 7) | **1,283,079** | 9,748,084 |
| Other current assets (Note 9) | **50,435,677** | 57,901,437 |
| Total Current Assets | **396,302,938** | 775,682,393 |
| **Noncurrent Assets** | | |
| Financial assets at fair value through other comprehensive income (Notes 8 and 26) | **475,000** | 475,000 |
| Investments in associates (Note 10) | **451,487,415** | 455,995,470 |
| Property and equipment (Note 11) | **15,248,667** | 59,520,797 |
| Intangible assets (Note 12) | **1,905,305,184** | 3,612,923,684 |
| Pension asset | – | 1,410,282 |
| Deferred tax assets – net | **6,642,055** | 14,186,692 |
| Other noncurrent assets | **36,729,045** | 46,370,777 |
| Total Noncurrent Assets | **2,415,887,366** | 4,190,882,702 |
| | **₱2,812,190,304** | ₱4,966,565,095 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts and other payables (Notes 13 and 26) | **₱511,376,620** | ₱654,522,147 |
| Loans payable (Notes 14 and 26) | **54,507,974** | 358,741,481 |
| Contract liabilities (Note 7) | **49,963,864** | 44,498,497 |
| Income tax payable | – | 2,190,193 |
| Other current liabilities (Note 15) | **754,039** | 63,753,036 |
| Total Current Liabilities | **616,602,497** | 1,123,705,354 |
| **Noncurrent Liabilities** | | |
| Advances from stockholders - net of current | **150,000,000** | – |
| Finance lease - net of current portion | **16,826** | 25,388 |
| Deferred tax liabilities – net | **7,942,639** | 352,729,028 |
| Pension liabilities | **23,521,092** | 23,521,092 |
| Total Noncurrent Liabilities | **181,480,557** | 376,275,508 |
| Total Liabilities | **798,083,054** | 1,499,980,862 |
| **Equity** | | |
| Equity attributable to equity holders of Xurpas Inc. | | |
| Capital stock (Note 24) | **193,492,585** | 193,492,585 |
| Additional paid-in capital (Note 24) | **3,592,076,662** | 3,592,076,662 |
| Retained earnings (Note 24) | **(1,168,920,047)** | (556,374,537) |
| Net unrealized loss on financial assets at FVOCI (Note 8) | **(44,219,956)** | (44,219,956) |
| Cumulative translation adjustment | **32,165,066** | 34,451,988 |
| Retirement benefit reserve | **1,632,860** | 5,475,312 |
| Equity reserve (Notes 23 and 24) | **(402,222,322)** | (402,222,322) |
| Treasury stock (Note 24) | **(114,403,275)** | (115,464,275) |
| | **2,089,601,573** | 2,707,215,457 |
| Noncontrolling interests | **(75,494,323)** | 759,368,776 |
| Total Equity | **2,014,107,250** | 3,466,584,233 |
| | **₱2,812,190,304** | ₱4,966,565,095 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements*

## XURPAS INC. AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the nine-month period ended | | For the three-month period ended | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) |
| **INCOME** | | | | |
| Service income (Note 16) | **₱853,196,286** | ₱817,835,408 | **₱263,101,276** | ₱248,240,849 |
| Sale of goods | **68,813,599** | 51,267,259 | **18,760,917** | 11,392,157 |
| | **922,009,885** | 869,102,667 | **281,862,193** | 259,633,006 |
| **COST AND EXPENSES** | | | | |
| Cost of services (Note 17) | **662,740,030** | 700,309,831 | **200,147,531** | 216,473,984 |
| Cost of goods sold | **57,108,835** | 40,600,989 | **17,025,161** | 11,703,228 |
| | **719,848,865** | 740,910,820 | **217,172,692** | 228,177,212 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** (Note 18) | **317,239,393** | 347,552,298 | **102,766,445** | 104,013,667 |
| **EQUITY IN NET LOSSES OF ASSOCIATES** (Note 10) | **4,508,055** | 27,974,188 | **(3,019,871)** | 6,227,774 |
| **OTHER CHARGES (INCOME) – NET** (Note 19) | **513,999,859** | 3,816,421 | **493,724,973** | (16,450,922) |
| | **835,747,307** | 379,342,907 | **593,471,547** | 93,790,519 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **(633,586,287)** | (251,151,060) | **(528,782,046)** | (62,334,725) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 22) | **22,841,092** | (60,739,273) | **12,288,122** | (15,569,083) |
| **NET INCOME (LOSS)** | **(656,427,379)** | (190,411,787) | **(541,070,168))** | (46,765,642) |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| *Item that may be reclassified to profit or loss in subsequent periods:* | | | | |
| Cumulative translation adjustment | **(1,493,844)** | 2,559,813 | **(8,779,426)** | (13,795,494) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **(₱657,921,223)** | (₱187,851,974) | **(₱549,849,594)** | (₱60,561,136) |

(Forward)

| | For the nine-month period ended | | For the three-month period ended | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) |
| **Net income (loss) attributable to:** | | | | |
| Equity holders of Xurpas Inc. | **(₱667,037,656)** | (₱186,806,364) | **(₱548,753,314)** | (₱49,758,995) |
| Noncontrolling interests | **10,610,279** | (3,605,423) | **7,683,148** | 2,993,353 |
| | **(₱656,427,377)** | (₱190,411,787) | **(₱541,070,166)** | (₱46,765,642) |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Equity holders of Xurpas Inc. | **(₱669,324,578)** | (₱184,386,556) | **(₱557,532,739)** | (₱58,694,490) |
| Noncontrolling interests | **11,403,357** | (3,465,418) | **7,683,147** | (1,866,646) |
| | **(₱657,921,221)** | (₱187,851,974) | **(₱549,849,592)** | (₱60,561,136) |
| **Earnings (Loss) Per Share** (Note 25) | | | | |
| Basic | **(₱0.36)** | (₱0.10) | **(₱0.30)** | (₱0.03) |
| Diluted | **(₱0.36)** | (₱0.10) | **(₱0.30)** | (₱0.03) |

*See accompanying Notes to Consolidated Financial Statements.*

# XURPAS INC. AND SUBSIDIARIES

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | September 30 | |
|---|---|---|
| | **2019 (Unaudited)** | 2018 (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 | **₱193,492,585** | ₱186,764,015 |
| Issuance of new shares through cash subscription | **–** | 6,728,570 |
| Balance at end of period | **193,492,585** | 193,492,585 |
| **ADDITIONAL PAID-IN CAPITAL** (Note 24) | | |
| Balance at beginning of period | **3,592,076,662** | 3,343,119,550 |
| Issuance of new shares through cash subscription | **–** | 248,957,112 |
| Balance at end of period | **3,592,076,662** | 3,592,076,662 |
| **RETAINED EARNINGS** (Note 24) | | |
| Appropriated | | |
| Balance at beginning and end of period | **115,464,275** | 115,464,275 |
| Unappropriated | | |
| Balance at beginning of period | **(671,838,812)** | 207,266,583 |
| Net loss | **(667,037,656)** | (137,047,369) |
| Acquisition of Noncontrolling interest | **36,090,788** | |
| Sale of Subsidiary | **18,401,358** | |
| Balance at end of period | **(1,284,384,322)** | 70,219,214 |
| | **2,616,649,200** | 185,683,489 |
| **NET UNREALIZED LOSS ON FINANCIAL ASSETS AT FVOCI** (Note 8) | | |
| Balance at beginning and end of period | **(44,219,956)** | (70,000) |
| **CUMULATIVE TRANSLATION ADJUSTMENT** | | |
| Balance at beginning of period | **34,451,988** | 35,366,128 |
| Movement during the period | **(2,286,922)** | 11,355,303 |
| Balance at end of period | **32,165,066** | 46,721,431 |
| **RETIREMENT BENEFIT RESERVE** | | |
| Balance at beginning and end of period | **5,475,312** | (1,189,261) |
| Other transactions | **(3,842,452)** | |
| Balance at end of period | **1,632,860** | (1,189,261) |
| **EQUITY RESERVE** (Notes 23 and 24) | | |
| Balance at beginning and end of period | **(402,222,322)** | (1,250,719,186) |
| **TREASURY STOCK** (Note 24) | | |
| Balance at beginning of period | **(115,464,275)** | (115,464,275) |
| Sale of treasury shares | **1,061,000** | – |
| Balance at end of period | **(114,403,275)** | (115,464,275) |
| | **2,089,601,573** | 2,650,531,445 |
| **NONCONTROLLING INTERESTS** | | |
| Balance at beginning of period | **759,368,776** | 834,961,420 |
| Acquisition of NCI | **(36,090,788)** | – |
| Increase in NCI | **7,082,805** | |
| Cumulative translation adjustment | **793,078** | 5,000,004 |
| Sale of subsidiary | **(817,258,473)** | |
| Net income (loss) | **10,610,279** | (6,598,776) |
| Balance at end of period | **(75,494,323)** | 833,362,648 |
| | **₱2,014,107,250** | ₱3,483,894,093 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

## XURPAS INC. AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | September 30 | |
|---|---|---|
| | **2019 (Unaudited)** | 2018 (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income (loss) before income tax | **(₱633,586,287)** | (₱188,816,335) |
| Adjustments for: | | |
| Depreciation and amortization (Notes 17 and 18) | **64,648,906** | 31,353,819 |
| Interest expense (Note 19) | **34,844,247** | 12,023,645 |
| Equity in net loss of associates (Note 10) | **4,508,055** | 21,746,414 |
| Provision for impairment loss (Note 18) | **486,711** | 1,621,940 |
| Realized foreign exchange loss on sale of cryptocurrencies | **486,765** | – |
| Loss on sale of cryptocurrencies (Note 19) | **188,067** | – |
| Realized gain from redemption of financial assets at FVPL (Note 8) | **–** | (305,623) |
| Unrealized foreign currency exchange gain (loss) | – | 509,913 |
| Interest income (Notes 5 and 19) | **(1,439,337)** | – |
| Disposal of asset | **274,636** | |
| Operating income (loss) before changes in working capital | **(529,588,237)** | (121,866,227) |
| Changes in working capital | | |
| Decrease (increase) in: | | |
| Accounts and other receivables and contract assets - net | **(68,241,273)** | 154,625,105 |
| Other current assets | **(18,351,804)** | (29,445,361) |
| Increase (decrease) in: | | |
| Accounts and other payables | **46,573,241** | (69,231,309) |
| Contract liabilities | **26,123,562** | |
| Other current liabilities | **(16,222,297)** | (16,055,918) |
| Net cash generated from (used in) operations | **(559,706,808)** | (81,973,710) |
| Interest received | **1,439,336** | 305,623 |
| Interest paid | **(28,904,739)** | (11,055,251) |
| Income taxes paid | **(18,148,172)** | (24,399,399) |
| Net cash provided by (used in) operating activities | **(605,320,383)** | (117,122,737) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceed from disposal of Yondu shares, net of cash disposed | **860,468,337** | |
| Proceeds from sale of intangible assets | **12,727,253** | |
| Additions to property and equipment (Note 11) | **(11,379,247)** | (11,810,672) |
| Proceed from sale of PPE | **(1,905,527)** | |
| Decrease (increase) in noncurrent assets | **(15,112,074)** | 961,474 |
| Net cash provided by (used in) investing activities | **844,798,742** | (10,849,198) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances from stockholders | **150,000,000** | – |
| Increase in noncontrolling interest | **7,082,805** | – |
| Acquisition of NCI – Xeleb Tech | **4,000,000** | |
| Proceeds from loan availments | **–** | 126,455,242 |
| Sale of treasury shares | **1,061,000** | – |
| Dividends paid | **(299,788)** | – |
| Payment of short-term loan payable (Note 14) | **(304,233,507)** | (61,354,750) |
| Net cash provided by (used in) financing activities | **(142,389,490)** | 65,100,492 |
| **EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH** | **6,569,501** | 27,104,766 |

| | | |
|---|---|---|
| **NET INCREASE (DECREASE) IN CASH** | **103,658,370** | (35,766,677) |
| **CASH AT BEGINNING OF PERIOD** | **177,396,187** | 215,254,510 |
| **CASH AT END OF PERIOD** (Note 5) | **₱281,054,557** | ₱179,487,833 |

*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 November 14, 2019.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements of the Group as at September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018, 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 September 30, 2019 and December 31, 2018 and for the nine-month periods ended September 30, 2019 and 2018 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 September 30, 2019 and December 31, 2018.

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 September 30, 2019 and December 31, 2018, the consolidated financial statements comprise the financial statement of the Parent Company and the following domestic subsidiaries:

| | Percentage Ownership | | |
|---|---|---|---|
| | **September 30, 2019** | December 31, 2018 | **Principal Activities** |
| 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) | 51.31 | 53.96 | Human resource management |
| Pt. Storm Benefits Indonesia (Storm Indonesia) | 51.31 | 53.96 | Human resource management |
| Yondu, Inc. (Yondu) | nil | 51.00 | Mobile consumer services and enterprise services |
| Rocket Search Inc. (formerly Yondu Software Labs Inc. ) (RSI) | nil | 51.00 | Enterprise services |
| Xurpas Enterprise Inc. (Xurpas Enteprise) | 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 | 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 Technologies for ₱45 million. The acquisition of the 35% interest resulted in the Parent Company acquiring 100% interest in Xeleb Technologies.

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

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

On November 21, 2016, the SEC approved the increase in authorized capital stock of Xeleb Technologies. On the same date, Xeleb Technologies issued shares in relation to Subscription Agreements by the Parent Company, Selajo Inc., Conrev Inc., Joseliemm Holdings Inc. and Rainy Day Future Entertainment, Inc. for a total subscription of 1,000,000,000 common shares. This resulted in the reduction of the Parent Company's interest in Xeleb Technologies to 67%.

During the period, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 33% stake in Xeleb Technologies from its minority stakeholders for a total consideration of ₱4.00 million. This resulted in 100% ownership of Parent Company in Xeleb Technologies.

On September 11, 2019, the board of directors of the Parent Company approved the dissolution of Xeleb Technologies.

Xurpas Enterprise Inc.

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

Xeleb Inc.

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

On September 11, 2019, the board of directors of the Parent Company approved the dissolution of Xeleb.

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).

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

During the nine-month period ended September 30, 2019, Storm issued 3,985 common shares to various individuals for a total of ₱7.08 million. This brought down the Parent Company's ownersip from 53.96% to 51.31% of the outstanding capital stock of Storm. No change in control resulted from the said transaction.

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2019. 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 9, *Prepayment Features with Negative Compensation*

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

The Group continues to assess the 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 also be 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 n PAS 17 and distinguish between two types of leases: operating and finance leases.

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

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

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

- *Annual Improvements to PFRS* 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

*Deferred effectivity*

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

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

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

<u>Current and Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated statement of financial position based on current / noncurrent classification. An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

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

The Group classifies all other liabilities as noncurrent.

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

<u>Fair Value Measurement</u>
Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see Note 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 – initial recognition and subsequent measurement

*Date of recognition*

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

*a. Financial assets*

*Initial recognition of financial instrument*

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

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

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

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

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

*Financial assets at amortized cost*

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

*Financial assets at FVOCI (debt instruments)*
The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets and Contract Assets

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

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

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

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

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

*Determining the stage for impairment*

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

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 60 days past due.

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

*b. Financial liabilities*

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

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

*Financial liabilities at FVPL*

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

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

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

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

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

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to short-term debts.

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

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

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

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

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

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

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

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

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

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

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

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

Inventories

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

Property and Equipment

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

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

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

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

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

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

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Cryptocurrencies which are not held in the ordinary course of business are recognized as intangible assets as these are identifiable non-monetary asset without physical substance.

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

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

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

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

The estimated useful lives of intangible assets follow:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Equity

*Capital stock and additional paid-in capital*

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

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

*Treasury shares*

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

*Retained earnings (deficit)*

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

*Unappropriated retained earnings*

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

*Appropriated retained earnings*

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

*Equity reserve*

Equity reserve represents:

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

## Revenue Recognition

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

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

*Service income*

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

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

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

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

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

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

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

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

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

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

Other Income
Other income is recognized as it accrues.

Cost and Expenses
"Cost of services", "Cost of goods sold", and "General and administrative expenses" are expenditures recognized in the consolidated statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measure reliably. The following specific recognition criteria must also be met before costs and expenses are recognized:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset 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.

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

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

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

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

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

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.
Remeasurements comprising actuarial gains and losses are recognized immediately in the consolidated statements of financial position with a corresponding debit or credit through other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

Foreign Currency Transactions

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

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

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

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

Earnings per Share (EPS)

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

Segment Reporting

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

Provisions

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

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

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

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

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

Events after the Reporting Period
Post year-end events up to date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material. Information on events after the reporting period is presented in Note 28 to the consolidated financial statements.

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## 3. Significant Accounting Judgments and Estimates and Assumptions

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

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

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

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

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

Management's Use of Estimates
The key assumptions concerning future and other key sources of estimation 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 lest cost of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow (DCF) model.

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

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

The carrying values of these nonfinancial assets follow:

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Goodwill (Notes 12 and 23) | **₱1,859,614,233** | ₱2,399,762,153 |
| Customer relationship (Notes 12 and 23) | **−** | 1,077,809,700 |
| | **₱1,859,614,233** | ₱3,477,571,853 |

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

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

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

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

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

## 4. Seasonality of Interim Operations

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

## 5. Cash

This account consists of:

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| Cash on hand and in banks | **₱75,660,299** | ₱177,396,187 |
| Cash equivalents | **205,394,258** | − |
| | **₱281,054,557** | ₱177,396,187 |

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

Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱1.26 million and ₱0.39 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

## 6. Accounts and Other Receivables

This account consists of:

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| Trade receivables | **₱300,328,409** | ₱771,395,524 |
| Receivable from related parties (Note 21) | **10,246,936** | 5,808,461 |
| Advances to employees | **2,234,910** | 4,764,040 |
| Others | **16,201,038** | 13,693,032 |
| | **329,011,293** | 795,661,057 |
| Less: Allowance for impairment loss | **265,481,668** | 265,024,372 |
| | **₱63,529,625** | ₱530,636,685 |

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 September 30, 2019 and December 31, 2018, the Group's receivables from GTI amounted to ₱2.35 million and ₱279.13 million, respectively, which comprise 42% and 36%, respectively, of the total trade receivables (Note 26).

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

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

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:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| At beginning of year | **₱265,024,372** | ₱118,853,129 |
| Provisions (Note 18) | **486,711** | 166,083,098 |
| Write-off | **–** | (16,053,400) |
| Recovery | **–** | 454,785 |
| Translation adjustments | **(29,415)** | (4,313,240) |
| | **₱265,481,668** | ₱265,024,372 |

## 7. Contract Balances

This account consists of:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Contract assets | **₱1,283,079** | ₱9,748,084 |
| Contract liabilities | **49,963,864** | 44,498,497 |

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

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

## 8. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of period | **₱475,000** | ₱6,380,000 |
| Collections during the period | **–** | (6,000,000) |
| Unrealized gain on financial assets at FVOCI | **–** | 95,000 |
| | **₱475,000** | ₱475,000 |

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

| | **September 30** | |
|---|---|---|
| | **2019 (Unaudited)** | 2018 (Unaudited) |
| Balance at beginning of period | **(₱44,219,956)** | (₱70,000) |
| Unrealized gain on financial assets at FVOCI | **–** | – |
| | **(₱44,219,956)** | (₱70,000) |

Unrealized loss on financial assets at FVOCI is recognized under “Other comprehensive income” in the consolidated statements of comprehensive income.

Carrying amount of the investments in financial assets at FVPL and financial assets at FVOCI as at September 30, 2019 and December 31, 2018 are as follows:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Quoted shares | | |
| Club Punta Fuego | **₱475,000** | ₱475,000 |
| Unquoted equity investment | | |
| Zowdow Inc. | **44,244,956** | 44,244,956 |
| Less: Unrealized loss on financial assets at FVOCI | **(44,244,956)** | (44,244,956) |
| | **–** | – |
| Unquoted debt investments | | |
| MatchMe Pte. Ltd. | **–** | – |
| Altitude Games Pte. Ltd. | **–** | – |
| Einsights Pte. Ltd. | **–** | – |
| Pico Candy Pte. Ltd. | **–** | – |
| | **₱475,000** | ₱475,000 |

The quoted shares are categorized under the Level 2 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 3 (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 September 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:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Creditable withholding tax | **₱ 21,515,760** | ₱18,176,998 |
| Prepaid Income Tax | **1,278,753** | |
| Input VAT | **14,107,481** | 13,740,143 |
| Prepaid expenses | **4,137,148** | 10,219,745 |
| Refundable deposits | **1,462,367** | 11,437,282 |
| Deferred input VAT | **2,960,757** | 3,494,984 |
| Inventories | **4,973,411** | 832,285 |
| | **₱50,435,677** | ₱57,901,437 |

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.

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

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

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

10. **Investments in Associates**

This account consists of:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| **Cost** | | |
| Balance at beginning and end of period | **₱577,561,081** | ₱575,584,063 |
| Additions during the period | **–** | 1,977,018 |
| | **577,561,081** | 577,561,081 |
| **Equity in net loss during the period** | | |
| Balance at beginning of period | **(133,091,435)** | (80,102,968) |
| Share in net loss during the period | **(4,508,055)** | (52,988,467) |
| Balance at end of period | **(137,599,490)** | (133,091,435) |

(Forward)

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| **Cumulative translation adjustment** | | |
| Balance at beginning of period | **11,525,824** | 20,181,846 |
| Movement during the period | **–** | (8,656,022) |
| Balance at end of period | **11,525,824** | 11,525,824 |
| | **₱451,487,415** | ₱455,995,470 |

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

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

| | Percentages of Ownership | | Carrying Amounts | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
| Micro Benefits Limited | **23.53%** | 23.53% | **₱367,056,621** | ₱377,307,980 |
| MatchMe Ltd. | **28.59** | 28.59 | **43,640,526** | 43,709,443 |
| Altitude Games Pte. Ltd | **21.78** | 21.78 | **25,428,210** | 24,339,262 |
| PT Sembilan Digital Investama | **49.00** | 49.00 | **15,362,058** | 10,638,785 |
| Altitude Games Inc. | **21.17** | 21.17 | **–** | – |
| | | | **₱451,487,415** | ₱455,995,470 |

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

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

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

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

As at September 30, 2019 and December 31, 2018, 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 September 30, 2019 and December 31, 2018, 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 ₱15.25 million during the nine-month period ended September 30, 2019. Depreciation expense amounted to ₱37.54 million and ₱23.09 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

## 12. Intangible Assets

This account consists of:

**September 30, 2019**

| | Goodwill | Customer Relationship | Developed Software | Leasehold Rights | Crypto-currencies | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At beginning of period | **₱2,544,617,520** | **₱1,077,809,700** | **₱208,845,306** | **₱17,378,812** | **₱5,484,591** | **₱3,854,135,929** |
| Additions | – | – | **1,232,247** | – | **1,269,615** | **2,501,862** |
| Disposals | **(540,147,917)** | **(1,077,809,700)** | **(109,402,339)** | **(12,228,500)** | **(2,685,745)** | **(1,742,274,201)** |
| Translation adjustment | – | – | – | – | **1,255,722** | **1,255,722** |
| At end of period | **2,004,469,603** | – | **100,675,214** | **5,150,312** | **5,324,183** | **2,115,619,312** |
| **Accumulated amortization** | | | | | | |
| At beginning of period | – | – | **87,763,575** | **8,593,303** | – | **96,356,878** |
| Amortization (Note 17) | – | – | **25,390,429** | **1,716,438** | – | **27,106,867** |
| | | | | | | **(58,004,987)** |
| Disposal | – | – | **(51,017,273)** | **(6,987,713)** | | **.** |
| At end of period | – | – | **62,136,731** | **3,322,028** | – | **65,458,759** |
| **Allowance for impairment** | **144,855,369** | – | – | – | – | **144,855,369** |
| **Net Book Value** | **₱1,859,614,233** | **₱–** | **₱38,538,483** | **₱1,828,284** | **₱5,324,183** | **₱1,905,305,184** |

December 31, 2018

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

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

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

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

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

*Cryptocurrencies*
Cryptocurrencies pertain to units of Bitcoin held by the Group as at September 30, 2019.

The fair value of cryptocurrencies was determined using quoted market prices in active markets categorized under Level 1 of fair value hierarchy. As at September 30, 2019 and December 31, 2018, the fair value of Bitcoin is valued at USD3,742.70 per unit. For the nine-month period ended September 30, 2019 and for the year ended December 31, 2018, unrealized loss amounting to nil and ₱2.55 million, respectively, was recognized as a result of revaluation of cryptocurrencies.

During the nine-month periods ended September 30, 2019 and 2018, the Group sold cryptocurrencies with cost amounting to ₱2.69 million and nil, respectively. The Group recognized “Loss from sale of cryptocurrencies” and “Foreign exchange gain” under “Other income (charges)” amounting to ₱0.19 million and ₱0.45 million, respectively (see Note 19).

The amortization expense of intangible assets recognized in “Depreciation and amortization” under “Cost of services” in the consolidated statements of comprehensive income amounted to ₱18.18 million and ₱16.31 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Note 17).

## 13. **Accounts and Other Payables**

This account consists of:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Payable to related parties (Note 21) | **₱104,866,559** | ₱104,026,002 |
| Trade payables | **120,048,756** | 179,196,897 |
| Accrued expenses | **18,414,832** | 42,658,546 |
| Nontrade payables | **54,754,137** | 55,364,501 |
| Taxes payable | **11,274,024** | 14,869,140 |
| Deferred output VAT | **1,498,447** | 42,673,696 |
| Others | **200,519,865** | 215,733,365 |
| | **₱511,376,620** | ₱654,522,147 |

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, rent, outsourced services and royalty. These are noninterest-bearing and are normally settled within one year.

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

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.

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

Others consist of statutory payables to SSS, Philhealth and HDMF. This account also includes provision relating to the Token Pre-Sale Agreements ("PSA") entered into by Group, through ODX, with various investors for the sale of ODX tokens. 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 180-day term loans entered into by the Group with different local banks and non-banks, with interest rates of 4.00% to 7.60% and 4.00% to 5.8125% per annum in 2019 and 2018, respectively.

The rollforward analysis of this account follow:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Balance at beginning of period | **₱358,741,481** | ₱377,419,000 |
| Availments of loans | – | 317,741,455 |
| Payment of loans | **(304,233,507)** | (336,418,974) |
| | **₱54,507,974** | ₱358,741,481 |

Interest expense recognized in the consolidated statements of comprehensive income during the nine-month periods ended September 30, 2019 and 2018 amounted to ₱30.57 million and ₱17.05 million, respectively (see Note 19).

There were no undrawn loan commitments, transaction costs and interest expenses capitalized as at September 30, 2019 and December 31, 2018.

## 15. Other Current Liabilities

This account consists of:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Dividends payable | **₱165,151** | ₱63,163,332 |
| Finance lease liability – current | **588,888** | 589,704 |
| | **₱754,039** | ₱63,753,036 |

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 ₱853.20 million and ₱817.84 million for the nine-month periods ended September 30, 2019 and 2018, respectively, pertain to revenues earned from mobile consumer products and services, enterprise services and knowledge process outsourcing rendered by the Group to its major customers. Revenue from these segments are recognized at a point in time, except for revenues from Custom Development included under enterprise services which are recognized over time.

## 17. Cost of Services

Cost of services for the nine-month periods ended September 30, 2019 and 2018 consists of:

| | For the nine-month period ended | | For the three-month period ended | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) |
| Salaries, wages and employee benefits | **₱490,918,991** | ₱473,379,106 | **₱141,523,020** | ₱158,882,915 |
| Segment fee and network costs | **66,062,166** | 29,210,901 | **7,710,163** | 10,615,781 |
| Web hosting | **34,247,170** | 24,328,423 | **25,472,044** | 7,598,915 |
| Depreciation and amortization | **27,347,432** | 23,651,878 | **9,017,514** | 6,721,034 |
| Outsourced services | **26,777,238** | 97,401,217 | **11,017,375** | 25,408,383 |
| Consultancy fees | **5,040,026** | 12,686,004 | **1,532,244** | 1,861,931 |
| Rent (Note 20) | **3,459,561** | 6,799,535 | **1,072,997** | 1,457,367 |
| Utilities | **2,019,564** | 2,062,162 | **600,575** | 704,242 |
| Royalty fees | **1,762,597** | 22,637,519 | **819,293** | (435,248) |
| Commission | **161,185** | 86,405 | **158,633** | - |
| Prizes and winnings | **16,499** | 93,080 | **-** | - |
| Others | **4,927,601** | 7,973,601 | **1,223,673** | 3,658,664 |
| | **₱662,740,030** | ₱700,309,831 | **₱200,147,531** | ₱216,473,984 |

## 18. General and Administrative Expenses

General and administrative expenses for the nine-month periods ended September 30, 2019 and 2018 consists of:

| | For the nine-month period ended | | For the three-month period ended | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) |
| Salaries, wages and employee benefits | **₱155,936,745** | ₱183,367,670 | **₱44,170,220** | ₱61,775,378 |
| Depreciation and amortization | **37,301,475** | 22,210,021 | **9,865,687** | 7,787,046 |
| Professional fees | **29,958,612** | 11,764,076 | **19,790,878** | 1,098,963 |
| Outsourced services | **17,224,986** | 20,315,083 | **2,885,098** | 3,996,761 |
| Taxes and licenses | **10,740,282** | 20,149,908 | **3,056,718** | 3,731,329 |
| Utilities | **9,953,262** | 12,558,525 | **3,260,641** | 3,391,351 |
| Rent (Note 20) | **7,281,656** | 29,464,915 | **3,282,011** | 10,132,093 |
| Transportation and travel | **5,273,508** | 6,172,221 | **882,866** | 2,147,952 |
| Dues and subscription | **4,962,774** | 5,193,980 | **1,469,013** | 1,522,366 |
| Repairs and maintenance | **4,692,301** | 8,957,147 | **1,158,884** | 2,675,907 |
| Entertainment, amusement and recreation | **3,758,906** | 4,612,971 | **1,411,081** | 1,144,977 |
| Supplies | **3,219,119** | 3,097,542 | **1,047,456** | 935,582 |
| Insurance | **1,157,410** | 1,596,428 | **345,594** | 676,425 |
| Advertising | **1,012,067** | 5,187,237 | **379,230** | 594,914 |
| Seminars and trainings | **726,760** | 817,234 | **292,302** | 253,932 |
| Provision for impairment loss (Note 6) | **486,711** | 1,623,565 | **(813,500)** | 1,625 |
| Marketing and promotions | **230,220** | 3,849,117 | **76,488** | 678,287 |
| Miscellaneous | **23,322,599** | 6,614,658 | **10,205,778** | 1,468,779 |
| | **₱317,239,393** | ₱347,552,298 | **₱102,766,445** | ₱104,013,667 |

## 19. Other Charges (Income) - Net

This account consists of:

| | For the nine-month period ended | | For the three-month period ended | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) |
| Loss on sale of subsidiary | **₱480,975,029** | ₱– | **₱480,975,029** | ₱– |
| Interest expense | **34,844,247** | 20,878,797 | **16,171,830** | ₱ 12,023,645 |
| Foreign exchange losses | **3,015,690** | 9,639,234 | **1,219,811** | 12,331,202 |
| Bank charges | **697,927** | 3,005,087 | **185,214** | 2,146,358 |
| Loss on sale of cryptocurrencies | **188,067** | (3,548,250) | – | – |
| Interest income | **(1,439,337)** | (388,309) | **(1,254,310)** | (305,623) |
| Other income | **(4,281,764)** | (25,770,138) | **(3,572,601)** | (5,928,239) |
| | **₱513,999,859** | ₱3,816,421 | **₱493,724,973** | ₱20,267,343 |

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 ₱10.74 million and ₱36.26 million for the nine-month periods ended September 30, 2019 and 2018, respectively (see Notes 17 and 18).

As at September 30, 2019 and December 31, 2018, the future minimum lease payments within one year under noncancellable operating leases amounted to ₱38.55 million and ₱40.02 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 September 30, 2019 and December 31, 2018 follow:

| | | | **Outstanding Balance** | | | |
|---|---|---|---|---|---|---|
| | | | **September 30, 2019** | | December 31, 2018 | |
| | **Terms** | **Conditions** | **Receivable** | **Payable** | Receivable | Payable |
| **Associate** | | | | | | |
| Cost of services | Noninterest-bearing | Unsecured | **₱–** | **₱–** | ₱– | ₱19,208 |
| Advances | Noninterest-bearing | Unsecured, no impairment | **10,246,936** | **–** | 5,808,461 | – |
| | | | **10,246,936** | **–** | 5,808,461 | 19,208 |
| **Stockholders** | | | | | | |
| Payable to directors and officers (a-b) | Interest bearing | Unsecured | **–** | **253,281,309** | – | 102,421,544 |
| Payable to directors and officers (c) | Noninterest-bearing | Unsecured | **–** | **1,585,250** | – | 1,585,250 |
| | | | **–** | **254,866,559** | – | 104,006,794 |
| | | | **₱10,246,936** | **254,866,559** | ₱5,808,461 | ₱104,026,002 |

| | **Amount / Volume** | | | |
|---|---|---|---|---|
| | **September 30, 2019 (Nine Months)** | September 30, 2018 (Nine Months) | **September 30, 2019 (Three Months)** | September 30, 2018 (Three Months) |
| **Associate** | | | | |
| Cost of services | **₱–** | ₱– | **₱–** | ₱– |
| Advances | **4,438,475** | – | **388,959** | – |
| | **4,438,475** | – | **388,959** | – |
| **Stockholders** | | | | |
| Payable to directors and officers | **154,279,021** | 2,525,525 | **154,279,021** | 1,082,882 |
| Advances | **–** | 2,544,547 | **–** | – |
| | **₱154,279,021** | ₱5,070,072 | **₱154,279,021** | ₱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 nine-month periods ended September 30, 2019 and 2018, the Group recognized "Outsourced services" under "Cost of services" amounting to nil in relation to the aforementioned transaction. As at September 30, 2019 and December 31, 2018, payable to Altitude Games amounted to nil and ₱0.02 million, respectively.

b. In 2017, the Parent Company entered into a US$100,000 noninterest-bearing short-term loan agreement with Altitude Games for working capital purposes. As at September 30, 2019 and December 31, 2018, receivable from Altitude Games amounted to ₱5.26 million and ₱4.99 million, respectively.

c. The Parent Company made payments on behalf of SDI for its outsourced services. As at September 30, 2019 and December 31, 2018, outstanding balance amounted to nil and ₱0.55 million, respectively.

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 ₱2.90 million under "Other income (charges)" in its consolidated statements of comprehensive income. As at September 30, 2019, outstanding loans and interest payable pertaining to this transaction amounted to ₱97.45 million and ₱1.79 million, respectively.

b. On April 29, 2019, the Parent Company entered into a loan agreement with its directors amounting to ₱150.00 million subject to 5.50% interest rate per annum. The Group recognized interest expense amounting to ₱1.38 million under "Other income (charges)" in its consolidated statements of comprehensive income. As at September 30, 2019, outstanding loans and interest payable pertaining to this transaction amounted to ₱150.00 million and ₱1.38 million, respectively.

c. Payable to directors and officers also pertain to directors' fees. Outstanding payable amounted to ₱1.59 million as at September 30, 2019 and December 31, 2018.

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱35.19 million and ₱49.95 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

## 22. Income Taxes

Provision for (benefit from) income tax for the nine-month periods ended September 30, 2019 and 2018 consists of:

| | **September 30** | |
|---|---|---|
| | **2019 (Unaudited)** | 2018 (Unaudited) |
| Current | **₱29,413,302** | ₱ 22,726,182 |
| Deferred | **(6,659,074)** | (83,498,533) |
| Final | **86,864** | 33,077 |
| | **₱22,841,092** | (₱60,739,274) |

## 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 |
| | 139,926,434 |
| **Liabilities** | |
| Accounts and other payables | 20,965,139 |
| Deferred tax liability | 1,228,832 |
| Loans payable | 6,628,000 |
| | 28,821,971 |
| Net assets | 111,104,463 |
| Non-controlling interests in Storm | 54,376,599 |
| Total net assets acquired | 56,727,864 |
| Goodwill | 134,161,689 |
| Acquisition cost | ₱190,889,553 |

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

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

Cash outflow related to the acquisition follows:

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

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

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

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

Cash outflow related to the acquisition follows:

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

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

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

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

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

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

Cash outflow related to the acquisition follows:

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

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*

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

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

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

On September 11, 2019, the board of directors of Parent Company approved the sale of 51% of Yondu back to GTI for a total amount of ₱501.25 million. As a result, the Group consolidated Yondu's statement of comprehensive income up to the date of sale.

Total provisional loss on disposal of Yondu recognized on the consolidated profit or loss amounted to ₱480.98 million.

Yondu operates both under mobile consumer services and enterprise services segments of the Group.

## 25. Equity

The details of the number of shares as at September 30, 2019 and December 31, 2018 follow:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (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** | 1,934,925,852 |
| Treasury shares | **63,985,642** | 63,985,642 |
| Value of shares issued | **₱193,492,585** | ₱193,492,585 |
| Value of treasury shares | **(₱114,403,275)** | (₱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 ₱1.00each to ₱500.00 million divided into 500.00 million common shares at the par value of ₱1.00 each.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱255.00 million to ₱500.00 million.
- Subscription of 61.25 million shares with par values of ₱1.00 per share, to be paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

In addition, the Parent Company issued the subscribed 61.25 million shares with par value of ₱1.00 per share and another 5.10 million shares with par value of ₱1.00 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 |
| | ₱56,652,330 | ₱12,927,441 | (₱43,724,889) |

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

Treasury Stock

On November 9, 2016, the BOD of the Parent Company approved the buyback of its common shares up to the extent of the total allotment amounting to ₱170.00 million subject to the prevailing market price at the time of the buyback. The Parent Company commenced the program on November 14, 2016 and 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).

On April 8, 2019, the Parent Company issued 415,000 shares taken from its treasury shares for a price of ₱1.23 per share.

On July 4, 2019, the Parent Company issued 475,000 shares taken from its treasury shares for a price of ₱1.16 per share.

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 September 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:

| | **September 30, 2019 (Unaudited)** | December 31, 2018 (Audited) |
|---|---|---|
| Capital stock | **₱193,492,585** | ₱193,492,585 |
| Additional paid-in capital | **3,592,076,662** | 3,592,076,662 |
| | **₱3,785,569,247** | ₱3,785,569,247 |

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 September 30, 2019 and December 31, 2018.

## 26. Earnings Per Share

Basic earnings per share for the nine-month periods ended September 30, 2019 and 2018 were computed as follows:

| | **For the nine-month period ended** | | **For the three-month period ended** | |
|---|---|---|---|---|
| | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) | **September 30, 2019 (Unaudited)** | September 30, 2018 (Unaudited) |
| Net income (loss) attributable to the equity holders of the Parent Company | **(₱667,037,657)** | (₱186,729,490) | **(₱548,753,314)** | (₱49,758,995) |
| Weighted average number of outstanding shares | **1,871,359,349** | 1,855,905,675 | **1,871,359,349** | 1,855,905,675 |
| Basic earnings per share | **(₱0.36)** | (₱0.10) | **(₱0.30)** | (₱0.03) |
| Diluted earnings per share | **(₱0.36)** | (₱0.10) | **(₱0.30)** | (₱0.03) |

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

## 27. Financial Instruments

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

- Cash, accounts and other receivables (except for advances to employees which are subject to liquidation), refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding “Taxes payable”, “Deferred output VAT”, and provision relating to PSA and statutory payables included as “Others”), loans payable, liability on written put option, dividends payable and finance lease liability under other current liabilities - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments, except for cash bond under other noncurrent assets. The difference between carrying amount and fair value is immaterial.1

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

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

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

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

The fair value of financial assets at FVOCI amounting to ₱0.48 million approximate their carrying value.

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

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

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

Quoted financial assets at FVOCI amounting to ₱0.48 million as of September 30, 2019 and December 31, 2018 were classified under Level 2 (see Note 8).

Unquoted financial assets at FVOCI amounting to nil as of September 30, 2019 and December 31, 2018 were classified under Level 3 (see Note 8).

As at September 30, 2019 and December 31, 2018, there have been no reclassifications from Level 1 to Level 2 or 3 categories.

Financial Risk Management and Objectives and Policies
The Group’s financial instruments comprise cash, financial assets at FVPL, accounts and other receivables, AFS financial assets, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding taxes payable, deferred output VAT, and statutory payables), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities, which arise directly from operations. The main purpose of these financial instruments is to finance the Group’s operations and to earn additional income on excess funds.

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

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

There were no changes in the Group's risk management objectives and policies during the nine-month period ended September 30, 2019 and year ended December 31, 2018.

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 42% and 36% of its total trade receivables as at September 30, 2019 and December 31, 2018, respectively (see Note 6).

The Group's maximum exposure to credit risk is equal to the carrying values of its financial assets as at September 30, 2019 and December 31, 2018.

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

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

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

Unquoted financial assets at FVOCI are unrated.

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

The maturity profile of the Group's financial assets and financial liabilities at September 30, 2019 and December 31, 2018 are based on contractual undiscounted payments.

As at September 30, 2019 and December 31, 2018, the Group's financial assets and financial liabilities have a maturity of less than one year.

## 28. **Segment Reporting**

The industry segments where the Group operates follow:

- Mobile consumer services - includes airtime management, content development and management and marketing and advertising solutions
- Enterprise services - includes platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services. This also includes IT staff augmentation 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 nine-month periods ended September 30, 2019 and 2018:

**2019 (Unaudited)**

| | **Mobile consumer services** | **Enterprise service** | **Other services** | **Intersegment Adjustments** | **Consolidated** |
|---|---|---|---|---|---|
| INCOME | | | | | |
| Service income | **₱ 25,278,123** | **₱833,933,393** | **₱2,626,832** | **(₱8,642,063)** | **₱853,196,285** |
| Sale of goods | **–** | **–** | **68,813,599** | **–** | **68,813,599** |
| | **25,278,123** | **833,933,393** | **71,440,431** | **(8,642,063)** | **922,009,884** |
| COST AND EXPENSES | **(508,985,295)** | **(754,220,224)** | **(106,373,674)** | **332,490,935** | **(1,037,088,258)** |
| Equity in net losses of associates | **–** | **–** | **–** | **(4,508,055)** | **(4,508,055)** |
| Other expenses | **(20,365,067)** | **(2,894,164)** | **(4,759,300)** | **(485,981,327)** | **(513,999,859)** |
| | **(504,445,246)** | **42,230,055** | **(26,773,197)** | **(166,640,510)** | **(633,586,287)** |
| Provision for (benefit from) income tax | **(83,001)** | **(28,409,161)** | **(3,406)** | **5,654,472** | **(22,841,092)** |
| Net loss | **(₱504,155,240)** | **₱48,409,844** | **(₱39,695,949)** | **(₱160,986,037)** | **(656,427,379)** |
| **Net loss attributable to:** | | | | | |
| Equity holders of Xurpas Inc. | | | | | **₱(667,037,656)** |
| Noncontrolling interests | | | | | **10,610,279** |
| | | | | | **₱(656,427,377)** |

2018 (Unaudited)

| | Mobile consumer services | Enterprise service | Other services | Intersegment Adjustments | Consolidated |
|---|---|---|---|---|---|
| INCOME | | | | | |
| Service income | ₱256,136,851 | ₱ 605,510,861 | ₱5,088,920 | (₱48,901,224) | ₱817,835,408 |
| Sale of goods | – | – | 51,267,259 | – | 51,267,259 |
| | 256,136,851 | 605,510,861 | 56,356,179 | (48,901,224) | 869,102,667 |
| COST AND EXPENSES | (567,457,830) | (611,096,498) | (126,293,268) | 216,384,478 | (1,088,463,118) |
| Equity in net loss of associates | – | – | – | (27,974,188) | (27,974,188) |
| Other income (expenses) | (21,637,795) | 5,333,373 | (3,721,099) | 16,209,100 | (3,816,421) |
| | (332,958,774) | (252,264) | (73,658,188) | 155,718,166 | (251,151,060) |
| Provision for (benefit from) income tax | 92,841,713 | 1,098,164 | 21,904,822 | (55,105,426) | 60,739,273 |
| Net income (loss) | (₱240,117,061) | ₱845,900 | (₱51,753,366) | ₱100,612,740 | (₱190,411,787) |
| Net income attributable to: | | | | | |
| Equity holders of Xurpas Inc. | | | | | (₱186,806,364) |
| Noncontrolling interests | | | | | (3,605,423) |
| | | | | | (₱190,411,787) |

## 29. Approval of Financial Statements

The unaudited interim condensed consolidated financial statements of the Group as at September 30, 2019 and December 31, 2018 and for the nine-month periods ended September 30, 2019 and 2018 were approved and authorized for issue by the BOD on _____, 2019.

## AGING OF RECEIVABLES

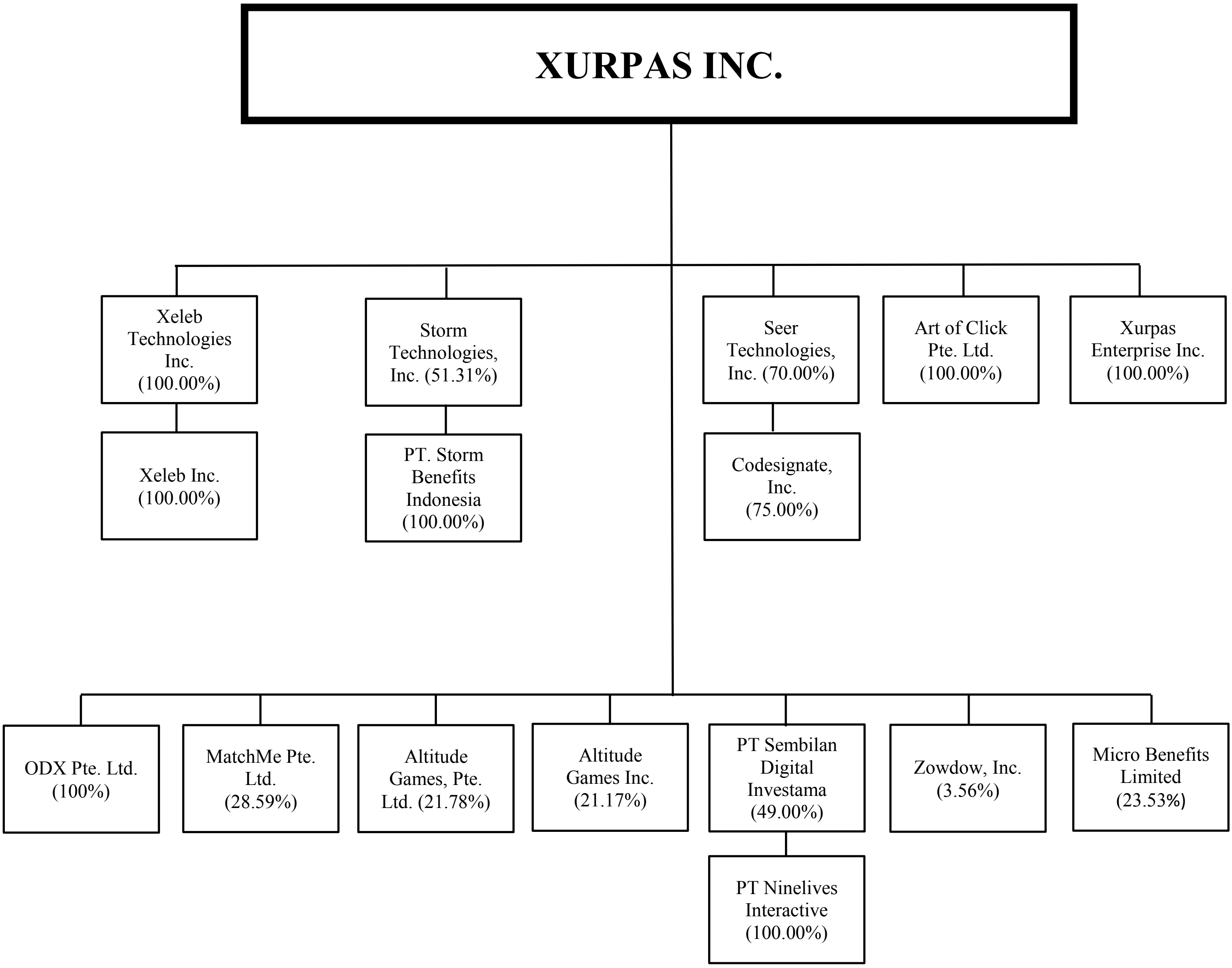
The aging analysis of accounts receivable presented per class follows:

**September 30, 2019**

| | | Days past due | | | | |
|---|---|---|---|---|---|---|
| | **Current** | **1 to 30 days** | **31 to 60 days** | **61 to 90 days** | **>90 days** | **Total** |
| Trade receivable | **₱33,192,151** | **₱1,409,813** | **₱387,311** | **₱1,720,684** | **₱263,618,450** | **₱300,328,409** |
| Receivable from related parties | **10,246,936** | **−** | **−** | **−** | **−** | **10,246,936** |
| Advances to employees | **2,234,910** | **−** | **−** | **−** | **−** | **2,234,910** |
| Others | **16,201,038** | **−** | **−** | **−** | **−** | **16,201,038** |
| | **₱61,696,036** | **₱1,409,813** | **₱ 387,311** | **₱ 1,720,684** | **₱ 263,618,450** | **₱329,011,293** |

**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 September 30, 2019:

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements | | | ✓ |
| **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 | **Not early adopted** | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | version) | | | |
| | 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 Negative Compensation | **Not early adopted** | | |
| **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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 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** | Borrowing Costs | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| (Revised) | | | | |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 | Consolidated and Separate Financial Statements | | | ✓ |
| PAS 27 (Amended) | Separate Financial Statements | | | ✓ |
| | Amendments to PAS 27: Investment Entities | | | ✓ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| PAS 28 | Investment in Associate 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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization | | | ✓ |
| | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives 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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2 - Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of September 30, 2019 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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, as restated | (₱378,410,874) |
| Less adjustments: | |
| Impairment loss | 175,846,935 |
| Adjustment due to adoption of PFRS 9 | 4,235,074 |
| Unappropriated Retained Earnings, as adjusted, beginning | (198,328,865) |
| Net loss based on the Parent Company financial statement | (447,090,176) |
| Less: Non-actual/unrealized income net of tax | |
| Amount of provision for deferred tax during the year | – |
| Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) | – |
| Fair value adjustment (M2M gains) | – |
| Impairment loss | – |
| Net Income Actual/Realized | (447,090,176) |
| Less: Other adjustments | |
| Dividend declarations during the period | – |
| Reversal of appropriation for share buy-back transactions | – |
| Reversal of appropriation for dividend declaration | – |
| Appropriations during the year | – |
| | – |
| Unappropriated retained earnings, end available for dividend distribution | ₱– |

# XURPAS INC. AND SUBSIDIARIES
# FINANCIAL RATIOS

| Financial Ratios | September 30, 2019 | December 31, 2018 |
|---|---|---|
| A. Current ratios | | |
| Current ratios | 64% | 69% |
| Quick ratios | 56% | 64% |
| B. Debt-to-equity ratios | 38% | 55% |
| C. Asset-to-equity ratios | 135% | 183% |
| D. Interest rate coverage ratios | (1,718%) | (2,045%) |
| E. Profitability ratios | | |
| Net income margin | (72%) | (62%) |
| Gross margin | 22% | 9% |
| Operating margin | (58%) | (46%) |
| Return on total assets | (17%) | (14%) |
| Return on equity | (28%) | (22%) |

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

Total revenues of the Group increased by 6%, from ₱869.10 million in the first nine months of 2018 to ₱922.01 million in the first nine months of 2019.

In the first nine months of 2019, the Group saw its revenues driven by the Enterprise services which now accounts for 90% of total revenues. The segment's revenues grew by ₱244.83 million or 42% from first nine months of 2018 vis-à-vis the same period in 2019. Other services also contributed to the growth as it increased by 27% from ₱56.16 million to ₱71.45 million over the same period.

The 42% increase in enterprise revenues was brought about by the 42% increase in Yondu's enterprise revenues from ₱550.58 million in 1Q-3Q2018 to ₱781.94 million in 1Q-3Q2019. Likewise, Xurpas Parent's refocus on the enterprise segment, through its subsidiary Xurpas Enterprise Inc. (XEI), has shown noteworthy results, as the first nine-months of 2019 revenues increased by 20% from ₱24.19 million in the first nine months of 2018 to ₱29.05 million.

The ongoing cost-cutting initiatives of Xurpas Parent and its subsidiaries (except Yondu) have shown results as overall cost of services decreased by 5% (from ₱700.31 million in the first nine months of 2018 to ₱662.74 million for the comparable period in 2019). On the other hand, overall, the general and administrative expenses (GAEX) decreased from ₱347.55 million in 1Q-3Q2018 to ₱317.24 million in 1Q-3Q2019 or by 9%. Isolating Yondu, the business growth of which, led to 32% increase in its cost of services and 13% in its GAEX, Xurpas Parent and the other subsidiaries in the group saw its cost of services decrease by 48%, and GAEX decrease by 32%.

On September 11, 2019, Xurpas sold its 51% shareholding in Yondu back to Globe Telecoms, for a total amount of ₱501.25 million. The divestiture of Yondu will provide the company additional liquidity, retires debt, and allows us to focus on high-value, emerging, innovative, and disruptive technologies and platforms impacting both enterprise and consumer commerce. As a result, the Group consolidated Yondu's statement of comprehensive income up to the date of sale. Total provisional loss on disposal of Xurpas' stake in Yondu recognized on the consolidated profit or loss amounted to ₱480.97 million. Likewise, the sale of Xurpas 51% stake in Yondu resulted into the deconsolidation of its assets, liabilities, and equity from Xurpas.

For the period, as a result of the increase in the revenues, the decrease in expenses; but also the recognition of a loss on the sale of Xurpas stake in Yondu, the resulting net loss for the first nine months of 2018 of ₱190.41 million worsened to losses of ₱656.44 million in the first nine months of 2019.

**Financial Summary**

| Key Financial Data<br>In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase (Decrease) |
| | Amount | Percentage | Amount | Percentage | | |
| **Revenues** | | | | | | |
| Enterprise services | 827.12 | 90% | 582.30 | 67% | 244.83 | 42% |
| Mobile consumer services | 23.45 | 3% | 230.64 | 27% | (207.20) | -90% |
| Other services | 71.45 | 8% | 56.16 | 6% | 15.29 | 27% |
| *Total Revenues* | **922.01** | **100%** | **869.10** | **100%** | **52.91** | **6%** |
| Cost of Services | 662.74 | 72% | 700.31 | 81% | (37.57) | -5% |
| Cost of Goods Sold | 57.11 | 6% | 40.60 | 5% | 16.50 | 41% |
| **Gross Profit** | **202.16** | **22%** | **128.19** | **15%** | **73.97** | **58%** |
| General and Administrative Expenses | 317.24 | 34% | 347.55 | 40% | (30.31) | -9% |
| Equity in Net Loss of Associates | 4.51 | 1% | 27.97 | 3% | (23.47) | -84% |
| Other charges - net | 514.00 | 56% | 3.82 | 0% | 510.18 | 13368% |
| **Loss Before Income Tax** | **(633.59)** | **-69%** | **(251.15)** | **-29%** | **(382.44)** | **152%** |
| Provision for (Benefit from) Income Tax | 22.84 | 2% | (60.74) | -7% | 83.58 | -138% |
| **Net Loss** | **(656.44)** | **-71%** | **(190.41)** | **-22%** | **(466.03)** | **245%** |
| Other Comprehensive Income | (1.49) | 0% | 2.56 | 0% | (4.05) | -158% |
| **Total Comprehensive Loss** | **(657.92)** | **-71%** | **(187.85)** | **-22%** | **(470.07)** | **250%** |

| | September 30, 2019<br>Amount | December 31, 2018<br>Amount | Amount Change | % Increase (Decrease) |
|---|---|---|---|---|
| **Total Assets** | 2,812.19 | 4,966.57 | (2,154.37) | -43% |
| **Total Liabilities** | 798.08 | 1,499.98 | (701.90) | -47% |
| **Total Equity** | 2,014.11 | 3,466.58 | (1,452.47) | -42% |

Total revenues increased by ₱52.91 million or 6%, from ₱869.10 million in the first nine months of 2018, to ₱922.01 million for the comparable period in 2019. Group revenues were still mainly driven by enterprise services, comprising 90% of the total revenue, compared to 67% in the first nine months of 2018.

The blended cost of services decreased by 5% from ₱700.31 million for the nine-month period ended September 30, 2018 to ₱662.74 million for the comparable period in 2019. Cost of goods sold attributable to other services was ₱57.11 million for the nine-month period ended September 30, 2019 compared to ₱40.60 million in the same period in 2018, an increase of 41% or ₱16.50 million.

Gross profit margins on total revenues, for the period ended September 30, 2019 was at 22%, an increase from the same period last year at 15%. Gross profit increased by 58% from ₱128.19 million for the first nine months of 2018 to₱202.16 million for the same period in 2019.

General and administrative expenses decreased by 9%, from ₱347.55 million for the first nine months of 2018 to ₱317.24 million for the same period in 2019. Overall, the decrease in the cost of services and general and administrative expenses was mainly due to the cost reduction initiatives undertaken by the Group. However, this was softened by the increase in cost levels of Yondu, supporting its growth business segments.

The Company also shares in the recorded net loss of the associate companies it has invested in, which amounted to ₱4.51 million for the nine-month period ended September 30, 2019; a 84% improvement from the ₱27.97 million share in net loss of the associate companies for the first nine months of 2018.

Loss before income tax worsened by 152% from ₱251.15 million for the first nine months of 2018 to ₱633.59 million for the same period in 2019, mainly because of the loss on sale of Yondu shares of Xurpas, amounting to ₱480.97 million.

Provision for income taxes during the first nine months of 2019 amounted to ₱22.84 million (without the utilization of deferred tax assets), while benefit from income tax amounting to ₱60.74 million was recognized in the same period in 2018.

Overall, the net loss for the Group grew from ₱190.41 million for the first nine months of 2018 to ₱656.44 million over the same period in 2019; an increase of 245%.

Due to the sale of Xurpas stake in Yondu, the deconsolidation of Yondu's balance sheet accounts from the Group's, resulted in the decreases of Xurpas, asset, liability, and equity levels. Consolidated total assets as of September 30, 2019 amounted to ₱2,812.19 million, a decrease of 43% from₱4,966.57 million as of December 31, 2018. Consolidated total liabilities decreased by 47% from ₱1,499.98 million as of December 31, 2018 to ₱798.08 million in September 30, 2019. Consolidated total equity decreased by 42% over the same period, from ₱3,466.58 million to ₱2014.11 million, resulting also, from the net loss incurred during the period.

**Segment Financial Performance**

| **For the 9-month period ended September 30, 2019 In PhP Millions** | **Mobile Consumer Services** | **Enterprise Services** | **Other Services** | **Intersegment Adjustments** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from services | 25.28 | 833.93 | 2.63 | (8.64) | 853.20 |
| Revenue from sale of goods | - | - | 68.81 | - | 68.81 |
| **Total Service Revenues** | **25.28** | **833.93** | **71.44** | **(8.64)** | **922.01** |
| Operating expenses | 508.99 | 754.22 | 106.37 | (332.49) | 1,037.09 |
| Equity in net loss of associates | - | - | - | 4.51 | 4.51 |
| Other charges - net | 20.37 | 2.89 | 4.76 | 485.98 | 514.00 |
| **Total Expenses** | **529.35** | **757.11** | **111.13** | **158.00** | **1,555.60** |
| **Operating Income (Loss)** | **(504.07)** | **76.82** | **(39.69)** | **(166.64)** | **(633.59)** |
| Provision from income tax | (0.08) | (28.41) | (0.00) | 5.65 | (22.84) |
| **Net Income (Loss)** | **(504.16)** | **48.41** | **(39.70)** | **(160.99)** | **(656.43)** |

For the nine-month period ended September 30, 2019, mobile consumer services' revenues, operating loss and net loss prior to eliminations were ₱25.28 million, ₱504.07 million and ₱504.16 million, respectively. Enterprise services had an operating income of ₱76.82 million and net income of ₱48.41 million from revenues of ₱833.93 million. The other services segment had revenues of ₱71.44 million, ending up with an operating loss of ₱39.70 million.

**<u>Profitability</u>**

*<u>For the nine-month period ended September 30, 2019 compared with the nine-month period ended September 30, 2018</u>*

**Revenues**

The consolidated revenues of the Group for the nine-month period ended September 30, 2019 amounted to ₱922.01 million, an increase of 6% from ₱869.10 million the same period of the previous year.

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

| Segment | Description | Subsidiaries |
|---|---|---|
| Mobile consumer services | Revenues ultimately derived from providing mobile consumer services via the Telcos, as well as mobile marketing and advertising solutions integrated in mobile casual games and platforms | • Xurpas Parent Company<br>• Xeleb Technologies<br>• Yondu<br>• 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 | • Seer<br>• Yondu<br>• Xurpas Enterprise |
| Other services | Revenues derived from services related to the proprietary platform called "Flex Benefits System" and "Ace" (formerly "Kudos") which allows employees to convert their employee benefits to other benefits which includes sale of goods | • Storm Technologies |

Yondu operated both under mobile consumer services and enterprise services segments of the Group. However, post September 2019, there will be no contribution to revenues of the Group, by Yondu to these segments.

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| **Revenues** | | | | | | |
| Enterprise services | 827.12 | 90% | 582.30 | 67% | 244.83 | 42% |
| Mobile consumer services | 23.45 | 3% | 230.64 | 27% | (207.20) | -90% |
| Other services | 71.45 | 8% | 56.16 | 6% | 15.29 | 27% |
| *Total Revenues* | **922.02** | **100%** | **869.10** | **100%** | **52.92** | **6%** |

Revenues from enterprise services (which accounts for 90% of total revenues) increased by 42% in September 30, 2019, to ₱827.12 million from ₱582.30 million in September 30, 2018. On the other hand, revenues from the mobile consumer services segment for the nine-month period ended September 30, 2019 amounted to ₱23.45 million, a decrease of 90% from the previous year's same period level of ₱230.64 million. This segment accounts for 3% of the total revenues. There has been no recovery on the value-added services (VAS) business with Globe and the digital advertising business. Other services booked revenues of ₱71.45 million in the first nine months of 2019, higher by 27% from the previous level at ₱56.16 million over the same period last year.

**Expenses**

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| Expenses | | | | | | |
| Cost of Services | 662.74 | 64% | 700.31 | 64% | (37.57) | -5% |
| Cost of Goods Sold | 57.11 | 5% | 40.60 | 4% | 16.50 | 41% |
| General and Administrative Expenses | 317.24 | 31% | 347.55 | 32% | (30.31) | -9% |
| *Total Expenses* | **1,037.09** | **100%** | **1,088.46** | **100%** | **(51.37)** | **-5%** |

The Group's consolidated expenses during the nine-month period ended September 30, 2019 amounted to ₱1,037.09 million, a 5% decrease from the same period of the previous year at ₱1,088.46 million. For the first nine months of 2019, cost of services accounted for the bulk of expenses, totaling ₱662.74 million or 64% of the Group's consolidated expenses. For the same period in 2018, cost of services amounted to ₱700.31 million, which also comprised 64% of overall expenses.

Cost of Services

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | % | Amount | % | | |
| Cost of Services | | | | | | |
| Salaries, wages and employee benefits | 490.92 | 74% | 473.38 | 68% | 17.54 | 4% |
| Segment fee and network costs | 66.06 | 10% | 97.40 | 14% | (31.34) | -32% |
| Web hosting | 34.25 | 5% | 29.21 | 4% | 5.04 | 17% |
| Others | 71.51 | 10% | 100.32 | 14% | (28.81) | -29% |
| *Total Expenses* | **662.74** | **100%** | **700.31** | **100%** | **(37.57)** | **-5%** |

Cost of services totaling ₱662.74 million as of September 30, 2019, was mainly driven by expenses relating to salaries, wages, and employee benefits. A total decrease of ₱37.57 in cost of services was accounted from the same period in 2018 of ₱700.31million.

Cost of Goods Sold

For nine-month period ended September 30, 2019, cost of goods sold took up 5% of the Group's consolidated expenses, amounting to ₱57.11 million. This figure was an increase of 41% from its level at ₱40.60 million in September 30, 2018. The increase in cost of goods sold was directly attributable to the increase in revenues of Storm Technologies.

General and Administrative Expenses

| In PhP Millions | For the nine months ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Amount Change | % Increase |
| | Amount | Percentage | Amount | Percentage | | |
| **General and Administrative Expenses** | | | | | | |
| Salaries, wages and employee benefits | 155.94 | 49% | 183.37 | 53% | (27.43) | -15% |
| Depreciation and amortization | 37.30 | 12% | 29.46 | 8% | 7.84 | 27% |
| Outsourced services | 17.22 | 5% | 22.21 | 6% | (4.99) | -22% |
| Others | 106.78 | 34% | 112.51 | 32% | (5.73) | -5% |
| *Total Expenses* | **317.24** | **100%** | **347.55** | **100%** | **(30.31)** | **-9%** |

General and administrative expenses relating to the Group's operations, for the first nine months of 2019 amounted to ₱317.24 million, lower by 9% compared to previous year's same period level of ₱347.55 million. Salaries, wages and employee benefits was ₱155.94 million or 49% of the total general and administrative expenses (GAEX).

**Equity in Net Loss of Associates**

The equity of the Group in the net loss of its associate companies for the nine-month period ended September 30, 2019, amounted to ₱4.51 million; 84% lower than the ₱27.97 million net loss for the comparable period. The decrease in equity in net loss of associates was significantly due to the net income of Ninelives and Altitude SG for the nine-month period ended September 30, 2019 and the significant reduction in the loss of MicroBenefits over the period.

**Other Charges – net**

For the first nine months of 2019, the Group recognized other net charges amounting to ₱514.00 million. This account mainly pertains to interest expense, foreign exchange gains and losses, and bank charges. However, the biggest component of this account is the loss on sale of Xurpas 51% shareholding in Yondu, which amounted to ₱480.97 million.

**Loss before Income Tax**

The Group's net loss before taxes for the nine-month period ended September 30, 2019 was ₱633.59 million. The net loss before taxes for the Group increased by 152% or ₱382.44 million from the same period ended September 30, 2018, which posted a figure of ₱251.15 million.

**Provision for (Benefit from) Income Tax**

Despite incurring a loss before income tax, the Group still recognized a provision for income tax for the nine-month period ended September 30, 2019 amounting to ₱22.84 million. The recognition of provision for income tax was mainly due to increase in deferred tax assets (DTA) that were unrecognized during the period. These are deductible temporary differences for which no DTA are recognized since management believes that there are no sufficient taxable profits against which the DTA can be utilized. For the period ended September 30, 2019, changes in unrecognized DTA amounted to ₱36.09 million. For the nine-month period ended September 30, 2018, the Group recognized benefit from income tax amounting to ₱60.74 million.

**Net Loss**

The Group posted a consolidated net loss of ₱656.44 million for the nine-month period ended September 30, 2019, an increase of 245% from the previous year's same period at ₱190.41 million.

Pro-forma net loss showing a 222% increase is shown below had the Group opted not to recognize DTA in the same period in 2018:

| | For the nine-month period ended September 30 | |
|---|---|---|
| | 2019 | 2018 |
| **In PhP Millions** | **Amount** | **Amount** |
| Loss before income tax | (633.59) | (251.15) |
| Provision for income tax | 22.84 | (47.09) |
| **Net Loss** | **(656.44)** | **(204.06)** |

**Total Comprehensive Income (Loss)**

As of September 30, 2019, the Group's total comprehensive loss amounted to ₱657.92 million, a decrease of 250% compared to total comprehensive loss of ₱187.85 million as at September 30, 2018.

**Financial Position**

*As of September 30, 2019 compared to December 31, 2018*

**Assets**

*Cash and Cash Equivalents*

The Group's consolidated cash and cash equivalents amounted to ₱281.05 million as at September 30, 2019, a net increase of 58% or ₱103.66 million from consolidated cash of ₱177.40 million as at December 31, 2018. This was mainly due to the advances made by the founders to Xurpas parent company and net proceeds from the sale Xurpas stake in Yondu after settling debt obligations.

*Accounts and Other Receivables*

The Group's consolidated accounts and other receivables amounted to ₱63.52 million and ₱530.64 million as at September 30, 2019 and December 31, 2018, respectively, representing a decrease of ₱467.11 million. In September 30, 2019, trade receivables were valued at ₱300.33 million. However, against the total accounts receivable s of ₱329.01 million there was an allowance for impairment/doubtful accounts amounting to ₱265.48 million, resulting to the net receivables of ₱63.53 million.

*Contract Asset*

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

The Group's consolidated contract asset totaled ₱1.28 million as of September 30, 2019, a decrease of ₱8.47 million or 87% from its previous level on December 31, 2018 at ₱9.75 million.

*Other Current Assets*

The Group's consolidated other current assets totaled ₱50.44 million as of September 30, 2019, a decrease of ₱7.47 million or 13% from its previous level on December 31, 2018 at ₱57.90 million. Creditable withholding taxes, input VAT and prepaid expenses comprised majority of other current assets.

*Financial assets at FVOCI*

This account pertains to quoted and unquoted equity investments in Club Punta Fuego and Zowdow Inc. As at September 30, 2019, carrying value and net unrealized loss on financial assets at FVOCI recognized in the consolidated statement of financial position remained unchanged from its previous level on December 31, 2018 which amounted to ₱0.48 million and ₱44.22 million, respectively.

*Investment in Associates*

As of September 30, 2019, the Group's consolidated investment in associates amounted to ₱451.49 million, a 1% decrease from its figure of ₱456.00 million during December 31, 2018. The breakdown of the carrying amounts of these investments are: Altitude Games Pte. Ltd. (₱25.43 million), MatchMe (₱43.64 million), PT Sembilan Digital Investama (₱15.36 million), and Micro Benefits Limited (₱367.06 million).

*Property and Equipment*

The Group's consolidated property and equipment was ₱15.25 million in September 30, 2019 vis-à-vis ₱59.52 million in December 31, 2018, or a decrease of 74%. Property and equipment consisted of leasehold improvements, leased assets, office, information technology equipment, furniture and fixtures and right-of-use assets. PFRS 16's headline change is that lessees will recognize lease liability, and a right-of-use asset for almost all leases.

*Intangible Assets*

Intangible assets of ₱1,905.30 million as at September 30, 2019 were recognized in relation to the Group's acquisitions and investments. This is a 90% decrease vis-à-vis the December 31, 2018 figure of ₱3,612.92 million. The major portion of the drop was due to the derecognition of Intangible assets recorded when Xurpas previously acquired 51% of Yondu.

- Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group. As of September 30, 2019, goodwill is at ₱1,859.61 million.
- Customer relationship pertains to Yondu's noncontractual and contractual agreements with Globe Telecoms, its major customer which are expected to generate revenues for the Group in subsequent periods. As of September 30, 2019, customer relationship valued at ₱1,077.81 million was derecognized due to sale of the Group's Yondu shares.
- 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 September 30, 2019, developed software net book value is at ₱100.68 million. Amortization of developed software for the nine-month period ended September 30, 2019 amounted to ₱22.39 million.
- Cryptocurrencies pertain to units of Bitcoin and Ethereum held by the Group as at September 30, 2019 valued at ₱5.32 million.
- Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination. As of September 30, 2019, leasehold rights net book value is at ₱5.15 million. Amortization of leasehold rights for the nine-month period ended September 30, 2019 amounted to ₱1.45 million.

*Deferred Tax Assets – Net*

The Group's consolidated net deferred tax assets level amounted to ₱6.64 million as at September 30, 2019, which decreased by 53% from ₱14.19 as at December 31, 2018.

*Other Noncurrent Assets*

Other noncurrent assets amounted to ₱36.73 million as of September 30, 2019. This figure is 21% lower than the value posted as of December 31, 2018 at ₱46.37 million. These are primarily rental and other deposits amounting to ₱1.39 million and ₱35.20 million, respectively.

**Liabilities**

*Accounts and Other Payables*

The Group's consolidated accounts and other payables valued at ₱551.38 million as at September 30, 2019 was a 22% or ₱143.15 million decrease from its December 31, 2018 figure of ₱654.52 million.

The Group's accounts and other payables consisted mainly of trade payables at ₱120.05 million, payable to related parties at ₱104.87 million, accrued expenses at ₱18.4 million, nontrade payables at ₱54.75 million, taxes payable at ₱11.27 million, deferred output VAT at ₱1.50 million and other payables at ₱200.52 million.

*Loans Payable*

The Group recorded ₱54.51 million in current loans in September 30, 2019 and ₱358.74 million in December 31, 2018. The outstanding bank loans of Xurpas parent, amounting to ₱304.23 million were settled, thus the decrease in loans payable.

*Contract liability*

Contract liabilities are obligations to transfer goods and services to customers from whom the Group has received consideration. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due. Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group's consolidated contract liability as at September 30, 2019 amounted to ₱49.94 million, an increase of 12% from the December 31, 2018 figure of ₱44.50 million.

*Income Tax Payable*

The Group's consolidated income tax payable as at September 30, 2019 amounted to nil, a decrease of 100% from the December 31, 2018 figure of ₱2.19 million.

*Other Current Liabilities*

The Group's other current liabilities amounted to ₱0.75 million in September 30, 2019 compared to ₱63.75 million in 2018, a decrease of 98%. A substantial portion if this account is the dividends payable by Yondu, which was deconsolidated when Xurpas stake in Yondu was sold.

*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, amounted to ₱0.02 million and ₱0.03 million in September 30, 2019 and December 31, 2018, respectively.

*Deferred Tax Liability - net*

As of September 30, 2019, the deferred tax liability (net) was at ₱7.94 million, a decrease of 98% or ₱344.79 million from ₱352.73 million as of December 31, 2018. This is primarily the deferred tax liability on fair value adjustment on intangible assets, pertinent to Yondu.

*Pension Liability*

The accrued pension of the Group is at ₱23.52 million in September 30, 2019, which was unchanged from its levels in December 31, 2018.

**Equity**

*Total Equity*

The Group's total equity as of September 30, 2019 was at ₱2,014.11 million, a 42% decrease from its December 31, 2018 level at ₱3,466.58 million. Retained earnings decreased by ₱612.55 million or 110% in September 30, 2019. This is largely a result of the sale of the 51% shareholding of Xurpas in Yondu, affecting not only the retained earnings but the non-controlling interest amount.

**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 Seer Technologies Inc. and Storm Technologies Inc. which are short term in nature. The Group is not in breach or default on any loan or other form of indebtedness.

<u>Cash Flows</u>

| | For the nine months ended September 30 | |
|---|---|---|
| | 2019 | 2018 |
| **In PhP Millions** | **Amount** | **Amount** |
| Net cash provided by (used in) Operating Activities | (605.32) | (200.04) |
| Net cash provided by (used in) Investing Activities | 844.80 | 99.25 |
| Net cash provided by (used in) Financing Activities | (142.40) | 0.43 |
| Effect of foreign currency exchange changes in cash | 6.57 | 13.39 |
| Net increase (decrease) in cash | 103.65 | (86.96) |
| Cash at beginning of period | 177.40 | 215.25 |
| Cash at end of period | **281.05** | **128.29** |

*Cash Flows Provided by Operating Activities*

For the first nine months of 2019, operating loss of ₱529.58 million was coupled with the corresponding increase in account receivables and account payables for a resulting ₱559.71 million net cash spent for operations. Together with interest received and income taxes paid, this resulted in a net cash generated in operating activities of ₱605.32 million.

*Cash Flows Used in Investing Activities*

The Group's consolidated cash flows used in investing activities for the first nine months of 2019 was ₱844.80 million compared to ₱99.25 million used in the same period of 2018. The net cash used in investing activities was mainly attributable to the acquisitions of property and equipment.

*Cash Flows Used in Financing Activities*

The Group's consolidated net cash flow used in financing activities for the nine-month period ended September 30, 2019 was ₱142.40 million; compared to ₱0.43 million provided for the nine-month period ended September 30, 2018. The cash flow provided by financing activities were mainly from advances from stockholders, payment of dividends and loans.

Capital Expenditure

The Group's capital expenditures for the nine-month period ended September 30, 2019 and the year ended December 31, 2018 amounted to ₱84.87 million and ₱18.35 million, respectively.

| **Key Financial Data In PhP Millions** | **September 30, 2019 Additions** | **December 31, 2018 Additions** |
|---|---|---|
| Right-of-use Assets | 73.49 | - |
| IT Equipment | 10.22 | 14.58 |
| Leasehold Improvements | 1.14 | 2.52 |
| Office Equipment | 0.02 | 1.19 |
| Furniture and Fixtures | - | 0.06 |
| Leased Asset | - | - |
| | **84.87** | **18.35** |

Additions of right-of-use assets resulted from adoption of PFRS 16.

**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 nine-month periods ended September 30** | | **For the year ended December 31** |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| **Liquidity Ratios** | | | |
| Current Ratio | **64%** | 94% | 69% |
| Quick Ratio | **56%** | 84% | 64% |
| **Asset-to-Equity Ratio** | **135%** | 164% | 183% |
| **Profitability Ratios** | | | |
| Net Income Margin | **-72%** | -21% | -62% |
| Gross Margin | **22%** | 15% | 9% |
| Operating Margin | **-58%** | -21% | -46% |
| Return on Total Assets | **-17%** | -3% | -14% |
| Return on Equity | **-28%** | -5% | -22% |
| **Debt Ratios** | | | |
| Debt-to-Equity Ratio | **0.38x** | 0.40x | 0.55x |
| Interest Coverage Ratio | **-17.18x** | -11.03x | -20.45x |

**Current Ratios**

Current Ratio and Quick Ratio in the nine-month period ended September 30, 2019 were 64% and 56%, respectively, a decrease from their respective 69% and 64% figures during the full year of 2018. The decrease in both ratios was primarily from the significant decrease in current assets of the Group for that period.

**Asset-to-Equity Ratio**

The decrease in the asset-to-equity ratio from 183% in December 31, 2018 to 135% in September 30, 2019 resulted from the decrease in equity due to net loss incurred during the period reduction of the non-controlling interest amount and the decrease in total assets due to deconsolidation of Yondu.

**Profitability Ratios**

Profitability margins had the following results due to the sale of Xurpas' 51% shareholding in Yondu: Gross Profit Margin (22%); Net Loss Margin (-72%), Operating Margin (-58%), Return on Total Assets (-17%) and Return on Equity (-28%).

**Debt Ratios**

Debt to Equity in September 30, 2019 was at 0.38x compared to 0.55x as at December 31, 2018. The decrease in the gearing ratio was attributed to significant decrease in liabilities and lower total equity value in September 30, 2019 compared to the previous year. Interest coverage ratio in September 30, 2019 was at 17.18x compared to -20.45x in December 31, 2018.

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

**Current Ratios**

1. Current ratio: $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

2. Quick ratio: $\dfrac{\text{Current assets – Other current assets}}{\text{Current liabilities}}$

**Asset-to-equity Ratio**: $\dfrac{\text{Total assets}}{\text{Total equity attributable to Parent Company}}$

**Profitability Ratios**

1. Net income ratio: Net income attributable to Parent Company
_______________________________________

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

**Debt Ratios**

| | | |
|---|---|---|
| 1. | Debt-to-equity ratio | Total Liabilities / Total equity attributable to Parent Company |
| 2. | Interest coverage ratio | Earnings before interest and tax / Interest expense |

Other Disclosures:

i. Liquidity. To cover its short-term funding requirements, the Group intends to use internally generated funds and net proceeds of the sale of a stake in its subsidiary. The Group can also obtain additional advances from its stockholders 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 new trends, events, or uncertainties that are expected to have a material favorable or unfavorable impact on the Group's revenues from continuing operations.

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

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

## 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 NOV 1 1 2019.

Issuer: **XURPAS INC.**

By:

**NICO JOSE S. NOLLEDO**
Chairman of the Board

**ALEXANDER D. CORPUZ**
President

**FERNANDO JUDE F. GARCIA**
Treasurer