

SEC REG. NO. A199908874

**DFNN INC.
(Consolidated First Quarter)**

Office Address:

**L2 – L5 14TH Floor Philippine Stock Exchange Tower
5TH Avenue, corner 28TH Street, Bonifacio Global City
Taguig City, Philippines 1634**

Telephone No.: 396-5270

Fiscal Year Ending: December 31, 2019

SEC FORM 17-Q

Active Secondary License Type and File Number: None

May 22, 2019

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

1. For the quarterly period ended March 31, 2019
2. Commission identification number A199908874
3. BIR Tax Identification No. 202-955-796-000
4. Exact name of registrant as specified in its charter

DFNN INC.

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

Manila, Philippines

6. Industry Classification Code: (SEC Use Only)

.....
.....
7. Address of registrant's principal office
Postal Code 1634

L2-L5 14TH Floor Philippine Stock Exchange Tower
5TH Avenue corner 28TH Street
Bonifacio Global City, Taguig
Metro Manila, Philippines 1634

8. Registrant's telephone number, including area code

(632) 396-5270

9. Former name, former address and former fiscal year, if changed since last report

3F Bonifacio Technology Center 31ST Street Corner 2nd Avenue,
E-Square IT Park - SEZ Bonifacio Global City, Taguig Metro Manila
Philippines

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Common Shares, PhP 1.00 par value</u>	<u>324, 620,008</u>

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

Yes No

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 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 90 days.

Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

See attached Financial Reports

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

The following discussion should be read in conjunction with the company's consolidated financial statements. Such consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines ("Philippine GAAP").

The Company does not experience any seasonality or cyclical in its interim operations. Most of the Company's projects have implementation cycles between 6 months to 24 months. As such revenue comparisons on a quarterly basis may not be comparable.

Three Months ended March 31 **2019 vs. 2018**

Revenue for the three months ended March 31, 2019 amounted to P301.4 million, an increase of P12.0 million or 4.1% compared to the same period last year with recorded total revenue of P289.4 million.

The Company posted an EBITDA of P45.4 million versus P74.1 million for the same period last year, a decrease of P28.8 million or 38.8% from the same period last year.

DFNN has now focused its efforts on its Gaming product offerings, Gaming Business Process Outsourcing Services, and its Secure Internet and Custom Financial applications through its various proprietary systems. DFNN's proprietary software, systems and platforms have been accepted for use in the Legal Gaming and Gambling industry of which technology needs are similar to the financial institutions that were initially targeted by the company. DFNN has increased its marketing efforts to provide more systems to the growing online gaming market in Asia and these initiatives which are long term in nature will impact significantly to the group's revenue and will provide for recurring revenue.

Consolidated Results of Operation

(In P Million)	For the 3 months ended		Fav/(Unfav)	%
	March 31	2019		
Revenue	301.4	289.4	12.0	4.1%
Cost and expenses	262.9	221.1	41.8	18.9%
Depreciation and amortization	20.9	20.3	(0.7)	(3.3%)
Other income (charges)	4.2	3.4	0.7	20.8%
Provision for (benefit from) income tax	1.1	(1.3)	(2.5)	(183.7%)
Net Income	20.5	52.8	(32.3)	(61.1%)
EBITDA	45.4	74.1	(28.8)	(38.8%)

Consolidated Results of Operation

(In ₦ Million)	For the First Quarter Ended		<u>Fav/(Unfav)</u>	<u>%</u>
	<u>March 31</u>	<u>2019</u>	<u>2018</u>	
Revenue	301.4	289.4	12.0	4.1%
Cost and expenses	262.9	221.1	41.8	18.9%
Depreciation and amortization	20.9	20.3	(0.7)	(3.3%)
Other income (loss)	4.2	3.4	0.7	20.8%
Provision for (benefit from) income tax	1.1	(1.3)	(2.5)	(183.7%)
Net Income	20.5	52.8	(32.3)	(61.1%)
EBITDA	45.4	74.1	(28.8)	(38.8%)

Material Changes for Revenue/Other Revenue

(1st Quarter 2019 vs. 2018)

Revenue during the first three months of 2019 is mainly in line with comparable period in 2018, with the increase in service fee income and sale of licenses partly offset by the decrease in commission income.

- **Commission Income.** The revenue from share-based income generated from licensed gaming operations for the three months ended March 31, 2019 decreased due mainly to the reduction in the number of gaming terminals by 3.38%. As of March 31, 2019, the Company has deployed 5,974 terminals nationwide.
- **Service Fee Income.** Revenue generated from the development and maintenance of software solutions during the three-month period ended March 31, 2019 amounted to ₦23.3 million, an increase of ₦7.1 million or 43.9% compared to comparable period last year. The increase is attributable to transaction services revenue, and income generated through processing and integration fees, through the aggressive sales effort of the management team, and enhancing the product suite to expand into blockchain technologies.
- **Sale of Licenses.** Sales of software and application licenses for the three months ended March 31, 2019 amounted to ₦16.3 million, an increase of ₦15.1 million or 1,207.0% compared to comparable period last year. The increase in revenue was due to the increase in foreign license revenue.

Material Changes for Costs and Expenses

(1st Quarter 2019 vs. 2018)

Costs and Expenses

For the three-month period ended March 31, 2019 the DFNN Group had consolidated cost and expenses in the amount of ₦262.9 million, an increase of ₦41.8 million or 18.9% compared to the same period last year.

- **Services fees and other fees.** Service fees for the three months ended March 31, 2019 amounted to ₦201.4 million which showed an increase of ₦15.8 million or 8.5% compared to similar period last year. The increase is mainly attributable to variable costs associated with the licensed gaming operations and software development related services of the group.
- **Personnel cost.** Compared to similar period last year, salaries and other personnel costs showed an increase of ₦9.1 million due mainly to increase in Group headcount to support the growth in licensed gaming operations and project implementations.
- **Other Operating Expenses.** The increase in this account of ₦13.5 million compared to the same period last year is attributable to higher spend on taxes and licenses, repairs and maintenance, and insurance.

Key Performance Indicators:

(In ₦ Million)	March 31, 2019	December 31, 2018
Current Assets	1,435.3	1,342.3
Total Assets	2,045.6	1,958.4
Current Liabilities	692.6	622.3
Total Liabilities	860.9	793.6
Total Equity	1,184.6	1,164.7

Financial Ratios:		March 31, 2019	March 31, 2018
Operating Income Margin	Operating Income / Revenue	6.79%	16.60%
Current Ratio	Current Assets / Current Liabilities	2.07	2.03
Current Assets to Total Assets	Current Assets / Total Assets	70.17%	49.38%
Debt to Equity Ratio	Total Liabilities / Total Equity	0.73	0.48
Asset to Equity Ratio	Total Assets / Total Equity	1.73	1.48
Return on Total Assets	EBIT / Total Assets	1.19%	2.99%
Return on Total Equity	Net Income / Total Equity	1.55%	4.35%
Interest Rate Coverage Ratio	EBIT / Interest Expense	8.89	22.73

Overall, the Company's net income for the three months ended March 30, 2019 amounted to ₱20.5 million, which is lower by ₱32.3 million or 61.1% compared to ₱52.8 million for the same period last year. The decrease in net income is mainly attributable to lower revenues which decreased by ₱31.7 million compared to the same period last year.

Financial Condition

As of March 31, 2019, DFNN's Total Assets stood at approximately ₱2.05 billion. DFNN had no significant long-term debt. Stockholders' Equity amounted to ₱1.18 billion.

The Company's cash position remained liquid throughout the three-month period. DFNN had consolidated cash and cash equivalents amounting to ₱90.1 million as of March 31, 2019.

DFNN had no material commitments for capital expenditures as of March 31, 2019.

DFNN has incurred significant costs and invested substantial funds towards the acquisition of a signed and executed contract (the Project) with the Philippine Charity Sweepstakes Office (PCSO), as well as the development and delivery of work under this contract. This Project was unilaterally suspended by PCSO, despite the fact that the Company had already fulfilled all of its deliverables under the contract.

DFNN filed for a civil case entitled an "Application for Interim Measure of Protection in Aid of Arbitration - Preliminary Injunction with Application for Temporary Order for Protection" and PCSO filed with the Regional Trial Court its Notice of Appeal. On March 21, 2013, the Company received a resolution from the Court of Appeals granting DFNN's Motion to Dismiss and dismissing the Appeal filed by PCSO.

DFNN received a copy of the Arbitral Award dated May 21, 2015 in relation to the arbitration proceedings mandated by the Equipment Lease Agreement (ELA) dated April 9, 2003 between the Company and the PCSO.

In its Arbitral Award, the Arbitration Panel ruled that PCSO illegally and improperly terminated the ELA with the Company. In this regard, PCSO was ordered to pay the Company the amount of ₱27,000,000 as liquidated damages, in accordance with the terms of the ELA.

A Petition for Correction of Domestic Arbitral Award was instituted in the Regional Trial Court of Makati (the Court) to seek correction of the computation of damages awarded to the Company in the arbitral award dated May 21, 2015.

DFNN received the Decision dated February 17, 2016 issued by the Court in relation to the Petition for Correction (the "Petition") filed by the Company. In its Decision, the Court granted the Petition and ordered the correction of the Arbitral Award to ₱310,095,150 plus 6% interest from date of finality of the Decision until final satisfaction thereof by PCSO in accordance with computation for liquidated damages provided under Section 13.2 of the ELA.

An Order dated May 18, 2016 was issued by the Court, in relation to its Petition for Correction of Arbitral Award with the PCSO. In the Order, the Court denied the PCSO's Motion for Reconsideration for lack of merit. The said Order stated that, "The Court, after having read the parties' respective pleadings does not find any justifiable reason to overturn the assailed Decision, much less issue a different ruling. When the Court ruled for the petitioner, it was after a thorough perusal of the attendant circumstances, taking into consideration the facts and applicable law."

Meanwhile, on 23 January 2017, DFNN filed before the Commission on Audit ("COA") a Petition for the Enforcement of its money claim against PCSO (i.e., P310 Million plus 6%

interest) considering the immediately executory nature of the RTC Br. 66 Makati City Decision. However, to date, the COA has yet to resolve the Petition.

Thereafter, PCSO appealed the said decision of RTC Br. 66 Makati City to the Court of Appeals, which then affirmed the ruling of the lower court. PCSO then elevated the matter to the Supreme Court, in G.R. No. 232801, assailing the ruling of the Court of Appeals. As of date, the Supreme Court has yet to resolve the case.

Material Changes in the financial condition of DFNN

(March 31, 2019 vs. December 31, 2018)

Cash & Cash Equivalents. The decrease in cash and cash equivalents is mainly due to payments related to marketing support for the outlets, and partial settlement of short-term loans.

Receivables. The increase in receivables is attributable to the increase in daily gross hold with the Gaming Sites, rent income earned from new sub-lease agreements, and advances made to affiliated companies.

Other Current Assets. The increase in the balance of this account is mainly due to the increase in Input VAT, as well as other receivables from outlets for marketing support.

Property and Equipment. The decrease in the balance was attributable to depreciation and amortization of the cost of Build-Out and Fit-Out of Technology and Data Center in Sta. Rosa, Laguna.

Investment in Associates. The balance is the carrying investment of DFNN, Inc. in the shares of HatchAsia Inc. representing about 21.97% holding percentage which is accounted using the equity method of accounting.

Goodwill and Intangible Assets. The decrease was mainly due to the straight line amortization of the account.

Accounts Payable and Other Current Liabilities. Current liabilities increased due mainly to increase in trade payables as a result of higher volume of transactions related to licensed gaming operations and software development services.

Other than those stated above, there were no significant changes or events that impacted on DFNN's continuing operations.

Other than those stated above and to the best of the Company Management's knowledge, Management is not aware of any trend, demand, commitment, event or uncertainty that will have a material impact on the issuer's liquidity. Management is not aware of any event that may trigger any material direct or contingent financial obligation, including any default or acceleration of an obligation. Management is not aware of any material off-balance sheet transaction, arrangement, obligation (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period. Management is not aware of any trend, event or uncertainty that may have a material impact (favorable or unfavorable) on the Company's net sales/revenues/income from continuing operations. Management is not aware of any significant element of income or loss that did not arise from the Company's continuing operations.

SIGNATURES

Pursuant to the requirements of the Securities Regulations Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

For: **DFNN INC.**



Antonio A. Lopa
Chairman



Calvin Lim Eng Kiat
President/CEO



Raymund Martin M. Escalona
Chief Financial and Investment Officer

Date: **22 MAY 2019**

DFNN INC. And Subsidiaries

Consolidated Financial Statements as at December 31, 2018 and
Quarters ended March 2019 and March 2018

DFNN INC. & SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Philippine Pesos)

	UNAUDITED MARCH 31, 2019	AUDITED DECEMBER 31, 2018
ASSETS		
Current Assets		
Cash	90,078,945	96,410,210
Receivables – net	669,068,477	656,857,442
Financial assets at fair value through profit or loss	393,017,102	386,423,829
Other current assets	283,157,507	202,614,941
Total Current Assets	1,435,322,031	1,342,306,422
Noncurrent Assets		
Goodwill and intangible assets	273,170,542	278,116,893
Noncurrent portion of financial assets	18,634,586	18,634,586
Investment in associates	74,993,376	75,014,329
Property and equipment - net	105,561,496	106,450,691
Deferred tax assets	36,912,915	36,912,915
Other noncurrent assets	100,992,028	100,939,184
Total Noncurrent Assets	610,264,943	616,068,598
TOTAL ASSETS	2,045,586,974	1,958,375,020
 TOTAL LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	646,354,323	576,079,888
Short-term loans payable	35,558,571	38,099,439
Income tax payable	10,734,634	8,127,171
Total Current Liabilities	692,647,528	622,306,498
Noncurrent Liabilities		
Deferred tax liabilities	81,614,794	83,098,699
Deposits for future stock subscriptions	36,750,000	36,750,000
Retirement benefits liability	11,502,653	11,502,653
Loans payable	8,495,046	6,505,437
Accrued rent and rental deposits	9,233,288	12,768,998
Other non-current liabilities	20,702,431	20,702,431
Total Noncurrent Liabilities	168,298,212	171,328,218
Total Liabilities	860,945,740	793,634,716
Equity		
Equity attributable to equity holders of the Parent Company:		
Capital stock	324,620,008	324,620,008
Additional paid-in capital	583,036,164	583,036,164
Cumulative translation adjustments	(37,910,773)	(37,374,521)
Treasury Stock	(26,677,255)	(26,677,255)
Equity reserve	(49,230,618)	(49,230,618)
Stock options outstanding	62,264,707	62,264,707
Other comprehensive income	(2,602,463)	(2,602,463)
Retained earnings	213,823,935	213,823,935
Net Income (loss)	18,407,357	-
	1,085,731,062	1,067,859,957
Non-controlling interest	98,910,172	96,880,347
Total Equity	1,184,641,234	1,164,740,304
TOTAL LIABILITIES AND EQUITY	2,045,586,974	1,958,375,020

DFNN INC. & SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Philippine Pesos)

	For the 3 months		For the 3 months	
	January to March		January to March	
	2019	2018	2019	2018
REVENUE				
Commission income	261,768,407	271,991,008	261,768,407	271,991,008
Service fees	23,287,548	16,179,549	23,287,548	16,179,549
Sale of licenses	16,328,643	1,249,370	16,328,643	1,249,370
	301,384,598	289,419,927	301,384,598	289,419,927
COST AND EXPENSES				
Service and other fees	201,029,843	185,224,026	201,029,843	185,224,026
Personnel	24,595,299	15,524,131	24,595,299	15,524,131
Travel, transportation and logistics costs	11,652,934	9,634,625	11,652,934	9,634,625
Rent	5,946,595	6,773,910	5,946,595	6,773,910
Utilities	6,186,686	3,938,137	6,186,686	3,938,137
Others	13,514,354	-	13,514,354	-
	262,925,711	221,094,829	262,925,711	221,094,829
INCOME(LOSS) BEFORE DEPRECIATION AND AMORTIZATION				
	38,458,887	68,325,098	38,458,887	68,325,098
DEPRECIATION AND AMORTIZATION				
	20,947,244	20,278,292	20,947,244	20,278,292
INCOME (LOSS) FROM OPERATIONS				
	17,511,643	48,046,806	17,511,643	48,046,806
Interest expense	(2,747,200)	(2,369,024)	(2,747,200)	(2,369,024)
Interest income	3,482,969	3,420,038	3,482,969	3,420,038
Share in profit (loss) of associates	(20,953)	2,623,349	(20,953)	2,623,349
Foreign exchange gain (loss) - net	80,080	(23,317)	80,080	(23,317)
Other income-net	3,365,260	(208,079)	3,365,260	(208,079)
	21,671,799	51,489,773	21,671,799	51,489,773
PROVISION FOR (BENEFIT FROM) INCOME TAX				
	1,127,418	(1,346,646)	1,127,418	(1,346,646)
NET INCOME				
	20,544,381	52,836,419	20,544,382	52,836,419
Other Comprehensive Income (Loss)				
Cumulative translation adjustment	(643,451)	(6,726,381)	(643,451)	(6,726,381)
	19,900,930	46,110,038	19,900,930	46,110,038
TOTAL COMPREHENSIVE INCOME				
Net Income Attributable To:				
Equity Holders for the Parent Company	18,407,357	52,085,547	18,407,357	52,085,547
Non-Controlling Interests	2,137,024	750,872	2,137,024	750,872
	20,544,381	52,836,419	20,544,381	52,836,419
Total Comprehensive Income Attributable To:				
Equity Holders for the Parent Company	17,871,105	46,479,781	17,871,105	46,479,781
Non-Controlling Interests	2,029,825	(369,743)	2,029,825	(369,743)
	19,900,930	46,110,038	19,900,930	46,110,038
Earnings Per Share Attributable to				
Equity holders of the Parent Company	0.057	0.160	0.057	0.160

DFNN INC. & SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Philippine Pesos)

	Capital Stock	Additional Paid-In Capital	Subscribed Capital Stock	Cumulative				Other				Minority Interest	Total
				Translation Adjustment	Treasury Stock	Equity Reserve	Stock Options Outstanding	Comprehensive Income	Retained Earnings/ (Deficit)				
Balances at December 31, 2018	324,620,008	583,036,164	-	(37,374,521)	(26,677,255)	(49,230,618)	62,264,707	(2,602,463)	213,823,935	96,880,347	1,164,740,304		
Issuance of capital stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Reissuance of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Translation adjustment	-	-	-	(536,252)	-	-	-	-	-	-	(107,199)	(643,451)	
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	-	18,407,357	2,137,024	20,544,381	
Balances at March 31, 2019	324,620,008	583,036,164	-	(37,910,773)	(26,677,255)	(49,230,618)	62,264,707	(2,602,463)	232,231,292	98,910,172	1,184,641,234		
Balances at December 31, 2017	324,620,008	583,036,164	-	(26,426,385)	(26,677,255)	(49,230,618)	57,233,922	(4,107,935)	239,405,913	69,900,036	1,167,753,850		
Issuance of capital stock	-	-	-	-	-	-	-	-	-	-	600,000	600,000	
Reissuance of treasury stock	-	-	-	-	(302,889)	-	-	-	-	-	-	(302,889)	
Translation adjustment	-	-	-	(5,605,766)	-	-	-	-	-	-	(1,120,615)	(6,726,381)	
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	-	52,085,547	750,872	52,836,419	
Balances at March 31, 2018	324,620,008	583,036,164	-	(32,032,151)	(26,980,144)	(49,230,618)	57,233,922	(4,107,935)	291,491,460	70,130,293	1,214,160,999		

DFNN INC. & SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Philippine Pesos)

For the 3 months ended

March 31

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	18,407,357	52,085,547
Adjustments for:		
Depreciation and amortization	20,947,244	20,278,292
Interest expense	2,747,200	2,369,024
Interest and dividend income	(3,482,969)	(3,420,038)
Share in profit of an associate	20,953	(2,623,349)
Operating income before working capital changes	38,639,785	68,689,476
Increase in:		
Receivables	(8,736,566)	(375,131,990)
Other current assets	(80,542,566)	(25,261,938)
Increase in:		
Accounts payable and other current liabilities	68,214,885	53,227,804
Accrued rent and rental deposits	(3,535,710)	-
Net cash from (used in) operations	14,039,828	(278,476,648)
Income taxes paid	1,123,558	21,954,882
Interest and dividend received	8,500	3,420,038
Net cash from (used in) operating activities	15,171,886	(253,101,728)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(15,111,698)	(1,110,001)
Decrease (Increase) in other noncurrent assets	(52,844)	8,472,900
Financial assets at FVPL	(6,593,273)	208,162
Net cash provided (used in) investing activities	(21,757,815)	7,571,061
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment (repayment) of loans	(551,259)	809,044
Acquisition of treasury shares	-	(302,889)
Changes in noncontrolling interest	1,493,573	(5,375,509)
Payment of interest	(687,650)	(2,536,280)
Net cash from (used in) financing activities	254,664	(7,405,634)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,331,265)	(252,936,301)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	96,410,210	331,738,040
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	90,078,945	78,801,739

DFNN

Aging of Receivables

As of March 31, 2019

	Current	1-30	31-60	61-90	Over 90	TOTAL
Trade	65,233,691	13,759,350	11,144,834	35,043,663	43,843,585	169,025,123
Due from Affiliated Companies	-	-	-	-	299,666,989	299,666,989
Accrued Interest Receivable	26,926,012	-	-	-	-	26,926,012
Loans Receivable	10,698,000	-	-	-	57,106,667	67,804,667
Others	1,204,588	284,596	785,962	8,466,822	94,903,719	105,645,687
TOTAL	104,062,291	14,043,946	11,930,796	43,510,485	495,520,960	669,068,477