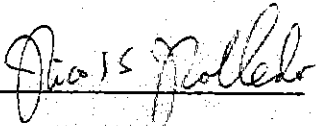


**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of XURPAS INC. is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2011, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submits the same to the stockholders or members.

SYCIP, GORRES AND VELAYO, the independent auditor appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.



NICO JOSE S. NOLLEDO

Chairman of the Board



RAYMOND GERARD S. RACAZA

Chief Executive Officer



FERNANDO JUDE F. GARCIA

Chief Finance Officer

Signed this 16th day of April, 2012

REPUBLIC OF THE PHILIPPINES)

MANILA

) S.S.

SUBSCRIBED AND SWORN to before me this APR 16 2012 at
MANILA, affiants exhibiting to me their respective competent evidence of identity
as follows:

Name	Competent Evidence of Identity	Date & Place Issued
Nico Jose S. Nollado	SSS 33-47670116	
Fernando Jude Fernando Garcia	SSS 33-66359285	
Raymond Gerard Sison Racaza	SSS 33-59850652	

Doc. No. 296
Page No. 30
Book No. VIX
Series of 20 12

[Signature]
ATTY. RONALD SEGUNDINO C. CHING
NOTARY PUBLIC - CITY OF MANILA
ADMIN. NO. 2011-008-ATTY. SEC. 31, 2012
ROL NO. 5186
NO. 945 BENAYOS ST. ERMUNDO MANILA
IBP NO. 884212112-29-2011 MLA
PTR NO. 0314224/12-19-2011 MLA

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Xurpas, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Xurpas, Inc. and its subsidiary which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Xurpas, Inc. and its subsidiary as at December 31, 2011 and 2010, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities.

SYCIP GORRES VELAYO & CO.

Davee M. Zuñiga

Davee M. Zuñiga

Partner

CPA Certificate No. 88990

SEC Accreditation No. 0665-AR-1 (Group A),

February 18, 2011, valid until February 17, 2014

Tax Identification No. 160-302-953

BIR Accreditation No. 08-001998-77-2009,

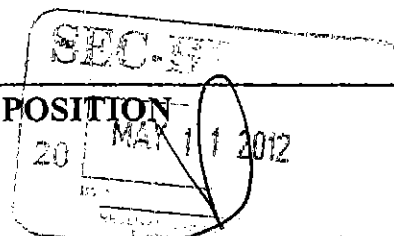
June 1, 2009, valid until May 31, 2012

PTR No. 3174840, January 2, 2012, Makati City

April 16, 2012



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



December 31

2011 2010

ASSETS

Current Assets

Cash (Note 4)	₱12,107,901	₱7,163,837
Receivables (Note 5)	38,023,413	20,160,862
Other current assets (Note 6)	296,420	755,763
Total Current Assets	50,427,734	28,080,462

Noncurrent Assets

Available-for-sale financial asset (Note 7)	210,000	200,000
Property and equipment (Note 8)	1,520,860	2,073,521
Other noncurrent assets (Note 9)	3,216,410	4,419,695
Total Noncurrent Assets	4,947,270	6,693,216
	₱55,375,004	₱34,773,678

LIABILITIES AND EQUITY

Current Liabilities

Accounts and other payables (Note 10)	₱13,013,543	₱6,582,018
Advances from a related party (Note 14)	134,017	109,158
Dividends payable (Note 16)	7,095,193	16,045,857
Total Current Liabilities	20,242,753	22,737,033

Noncurrent Liabilities

Deferred tax liabilities - net (Note 15)	5,499,305	2,139,956
Total Liabilities	25,742,058	24,876,989

Equity

Equity attributable to equity holders of Xurpas, Inc.

Capital stock	3,250,000	3,250,000
Unrealized loss on available-for-sale financial asset (Note 7)	(240,000)	(250,000)
Retained earnings (Note 16)	21,955,730	4,425,491
	24,965,730	7,425,491
Non-controlling interests	4,667,216	2,471,198
Total Equity	29,632,946	9,896,689
	₱55,375,004	₱34,773,678

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2011	2010
REVENUE		
Service income (Note 11)	₱95,307,080	₱48,224,921
Interest (Note 4)	77,492	83,325
Miscellaneous	—	79,928
	<u>95,384,572</u>	<u>48,388,174</u>
COSTS AND EXPENSES		
Cost of services (Note 12)	57,235,066	38,965,607
Communication, light and water	1,372,740	1,151,624
Entertainment, amusement and recreation	1,340,073	1,237,875
Copying, printing and office supplies	1,316,842	830,824
Transportation and travel	1,245,445	814,607
Salaries, wages and employee benefits	960,263	871,853
Rent (Notes 12 and 13)	927,471	918,068
Depreciation and amortization (Notes 8 and 12)	848,890	846,294
Taxes and licenses	712,466	685,131
Professional fees	311,580	416,681
Provision for impairment losses (Note 5 and 14)	250,054	6,252
Association dues	125,786	205,300
Miscellaneous	891,101	1,265,916
	<u>67,537,777</u>	<u>48,216,032</u>
INCOME BEFORE INCOME TAX	<u>27,846,795</u>	<u>172,142</u>
PROVISION FOR INCOME TAX (Note 15)	<u>7,682,846</u>	<u>2,016,673</u>
NET INCOME (LOSS)	<u>₱20,163,949</u>	<u>(₱1,844,531)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:		
Equity holders of Xurpas, Inc.	₱17,967,931	(₱2,453,084)
Non-controlling interests	2,196,018	608,553
	<u>₱20,163,949</u>	<u>(₱1,844,531)</u>

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
NET INCOME (LOSS)	₱20,163,949	(₱1,844,531)
OTHER COMPREHENSIVE INCOME (LOSS)		
Changes in fair value of available-for-sale financial asset (Note 7)	10,000	(250,000)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱20,173,949	(₱2,094,531)
TOTAL COMPREHENSIVE INCOME (LOSS)		
ATTRIBUTABLE TO:		
Equity holders of Xurpas, Inc.	₱17,977,931	(₱2,703,084)
Non-controlling interests	2,196,018	608,553
	₱20,173,949	(₱2,094,531)

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2011	2010
ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS, INC.		
Capital stock - ₱1 par value		
Authorized - 10,000,000 shares		
Issued and outstanding - 3,250,000 shares	₱3,250,000	₱3,250,000
Retained earnings (Note 16)		
Appropriated		
Balance at beginning of year	—	14,000,000
Appropriation	14,327,305	—
Dividends declared	—	(14,000,000)
Balance at end of year	14,327,305	—
Unappropriated		
Balance at beginning of year	4,425,491	6,878,575
Net income (loss)	17,967,931	(2,453,084)
Dividends declared	(437,692)	—
Appropriation	(14,327,305)	—
Balance at end of year	7,628,425	4,425,491
	21,955,730	4,425,491
Net unrealized loss on available-for-sale financial asset (Note 7)		
Balance at beginning of year	(250,000)	—
Changes in fair value of available-for-sale financial asset	10,000	(250,000)
Balance at end of year	(240,000)	(250,000)
	24,965,730	7,425,491
NON-CONTROLLING INTERESTS		
Appropriated		
Balance at beginning of year	—	—
Appropriation	2,663,889	—
Dividends declared	—	—
Balance at end of year	2,663,889	—
Unappropriated		
Balance at beginning of year	2,471,198	4,059,867
Net income	2,196,018	608,553
Dividends paid to non-controlling interests	—	(2,197,222)
Appropriation	(2,663,889)	—
Balance at end of year	2,003,327	2,471,198
	4,667,216	—
	₱29,632,946	₱9,896,689

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱27,846,795	₱172,142
Adjustments for:		
Depreciation and amortization (Notes 8 and 12)	1,136,678	1,109,048
Provision for impairment losses (Note 5 and 14)	250,054	6,252
Loss on write-off of property and equipment (Note 8)	64,931	-
Unrealized foreign currency exchange losses	18,546	37,912
Interest income (Note 4)	(77,492)	(83,325)
Income before changes in operating assets and liabilities	29,239,512	1,292,029
Changes in operating assets and liabilities		
Decrease (increase) in:		
Receivables	(18,112,605)	8,079,397
Other current assets	459,343	849,711
Other noncurrent assets	(2,332,093)	-
Increase in:		
Accounts and other payables	6,342,030	1,137,864
Advances from a related party	24,859	3,630
Net cash generated from operations	15,621,046	11,362,631
Interest received	62,406	66,660
Income taxes paid	(683,538)	(1,408,360)
Net cash provided by operating activities	14,999,914	10,020,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 8)	(648,948)	(835,313)
Increase in advances to related parties	-	(748,863)
Cash used in investing activities	(648,948)	(1,584,176)
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid (Note 16)	(9,388,356)	(17,642,121)
EFFECT OF FOREIGN CURRENCY EXCHANGE		
RATE CHANGES ON CASH	(18,546)	(87,912)
NET INCREASE (DECREASE) IN CASH	4,944,064	(9,293,278)
CASH AT BEGINNING OF YEAR	7,163,837	16,457,115
CASH AT END OF YEAR (Note 4)	₱12,107,901	₱7,163,837

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Group Information

Xurpas, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 26, 2001. The Parent Company owns 65% of Fluxion, Inc. (the Subsidiary). The principal activities of the Parent Company and Subsidiary (collectively referred to as the Group) is 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 1903 Antel 2000 Corporate Center, 121 Valero St., Salcedo Village, Makati City. In 2010, the Parent Company moved to its new business location at A51 Zeta II Building, 191 Salcedo Street, Legaspi Village, Makati City.

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the Board of Directors (BOD) on April 16, 2012.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying Group's consolidated financial statements have been prepared on a historical cost basis except for available-for-sale (AFS) financial asset, which is measured at fair value. The consolidated financial statements are presented in Philippine Peso, the Group's functional and presentation currency. All amounts were rounded off to the nearest peso unit except when otherwise indicated.

Statement of Compliance

The Group's consolidated financial statements have been prepared in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of and for the years then ended December 31, 2011 and 2010.

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

The Subsidiary is consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases.

All intragroup balances, transactions, income, expenses, dividends and profits and losses resulting from intragroup transactions that are recognized in assets are eliminated in full.



Cash

Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing bank deposit rates.

Receivables

Receivables, which are based on normal credit terms and do not bear interest, are recognized and carried at original invoice amounts. Where credits are extended beyond normal credit terms, receivables are measured at amortized cost using the effective interest method. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in the consolidated statement of income.

If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

Other Current Assets

Other current assets pertain to the resources controlled by the entity as a result of past transactions and events and from which future economic benefits are expected to flow to the entity. The Group classifies its other current assets as current since the assets are to be realized within the normal operating cycle.

Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial instrument is recognized when the entity becomes a party to its contractual provisions.

Date of recognition

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

Initial recognition of financial instruments

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. Financial assets within the scope of Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, are classified as in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.



Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

The Group chose to apply the recognition and measurement provisions of PAS 39, *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Section II, *Basic Financial Instruments* and Section 12, *Other Financial Instruments Issues* of PFRS for SMEs.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include equity investments.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gain (loss) on available-for-sale financial asset" in the equity section of the consolidated statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" account or "Other charges" account. Where the Group holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

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 property and equipment 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.

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

	Years
IT equipment	5
Office equipment	2 to 5
Furniture and fixtures	2 to 5
Leasehold improvements	5 or shorter of the lease term



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.

Impairment of Assets

At each reporting date, property and equipment and other noncurrent assets are reviewed to determine whether there is indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of assets) in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

Accounts and Other Payables

Accounts payables are obligations on the basis of normal credit terms and do not bear interest.

Dividends Payable

Dividends payable are recognized when the Group declared dividends to its stockholders of record that are to be settled upon availability of cash.

Equity

Capital stock

Capital stock is recognized as issued when stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

The Group considers the underlying substance and economic reality of its own equity instrument and not merely its legal form in determining its proper classification.

Retained earnings

Retained earnings represent accumulated earnings of the Group less dividends declared.

Non-Controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets in the Subsidiary which are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of changes in equity and within equity in the consolidated statements of financial position, separately from the Parent Company's equity.



Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any. The following specific recognition criteria must also be met before revenue is recognized:

Service income

Service income is recognized by reference to the stage of completion of the transaction at the end of the reporting period in accordance with the service agreement.

Interest income

Interest income is recognized as it accrues.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Cost and Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured.

Cost and expenses are recognized in the profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease liability. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Operating lease payments are charged to profit or loss on a straight-line basis over the term of the relevant base.



Income 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 taxation authority. Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustment is recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that taxable profits will be available against which the future income tax deductions can be utilized.

Foreign Currency-denominated Transactions and Translation

Transactions denominated in foreign currency are recorded in Philippine Peso at the exchange rate based on the Philippine Dealing System (PDS) rate, at the date of transactions. Foreign currency denominated assets and liabilities are translated at the closing PDS rate at the reporting date. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement date are recognized in profit or loss.

Provisions

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

Contingencies

Contingent liabilities are not recognized in the 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 financial statements but are disclosed in the notes when an inflow of economic benefits is probable.

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 financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.



3. Significant Accounting Judgments and Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS for SMEs requires management of the Group to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgment, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgment

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

Operating lease commitments - Group as lessee

The Group has entered into contract of operating lease for the office space it occupies. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating allowance for impairment losses

The Group estimates the level of allowance for doubtful accounts on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include among others, the length of the relationships with the customers, customers' payment behavior, known market factors, age and status of receivables. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the 'receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term.

The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The carrying values of the Group's receivables amounted to ₱38.02 million and ₱20.16 million as of December 31, 2011 and 2010, respectively (see Note 5).



The carrying values of the Group's advances to related parties amounted to ₱1.19 million as of December 31, 2011 and 2010 (see Note 14).

Evaluating impairment of AFS financial asset

The Group treats AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities (see Note 7).

Estimating useful lives of property and equipment

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

The net book value of property and equipment amounted to ₱1.52 million and ₱2.07 million as of December 31, 2011 and 2010, respectively (see Note 8).

Evaluating impairment of assets

The Group assesses impairment on its other current assets and property and equipment whenever events or changes in circumstances indicate that the carrying amount of the property and equipment and other current assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results and significant changes in the manner of use of the acquired assets or the strategy for overall business.

The carrying amount of other current assets and property and equipment is as follows:

	2011	2010
Property and equipment (Note 8)	₱1,520,860	₱2,073,521
Other noncurrent assets (Note 9)	3,216,409	4,419,695
	<u>₱4,737,269</u>	<u>₱6,493,216</u>

Recognizing deferred tax assets

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

The Group's deferred tax assets amounted to ₱2.99 million and ₱2.07 million as of December 31, 2011 and 2010, respectively (see Note 15).



4. Cash

This account consists of:

	2011	2010
Cash on hand	₱13,504	₱10,967
Cash in banks	12,094,397	7,152,870
	<u>₱12,107,901</u>	<u>₱7,163,837</u>

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

In 2011 and 2010, total interest income earned from cash in banks amounted to ₱77,492 and ₱83,325, respectively.

5. Receivables

This account consists of:

	2011	2010
Trade receivables	₱39,873,803	₱22,160,866
Advances to employees	705,595	318,638
Others	10,321	2,410
	<u>40,589,719</u>	<u>22,481,914</u>
Less allowance for impairment losses	2,566,306	2,321,052
	<u>₱38,023,413</u>	<u>₱20,160,862</u>

Trade receivables are noninterest-bearing and are generally settled on a 90-day term.

Allowance for impairment losses pertained to individually impaired receivables.

The movements in allowance for impairment losses follow:

	2011		
	Third parties	Related parties (Note 14)	Total
At beginning of year	₱4,800	₱2,316,252	₱2,321,052
Provision for impairment loss (Note 14)	250,054	-	250,054
Write off	(4,800)	-	(4,800)
At end of year	<u>₱250,054</u>	<u>₱2,316,252</u>	<u>₱2,566,306</u>

	2010		
	Third parties	Related Parties (Note 14)	Total
At beginning of year	₱426,320	₱2,310,000	₱2,736,320
Provision for impairment loss (Note 14)	2,777,778	6,252	2,784,030
Write off	(3,199,298)	-	(3,199,298)
At end of year	<u>₱4,800</u>	<u>₱2,316,252</u>	<u>₱2,321,052</u>



6. Other Current Assets

This account consists of:

	2011	2010
Prepayments	₱148,450	₱377,587
Deposits	130,000	378,176
Input value-added tax (VAT)	17,970	-
	<u>₱296,420</u>	<u>₱755,763</u>

Prepayments pertain to advance final tax payment relating to dividends declared and advance payment of membership dues in Club Punta Fuego for 2011.

Deposits pertain to the security deposit which can be refunded upon termination of the lease contract.

7. Available-for-Sale Financial Asset

This account consists of:

	2011	2010
Quoted share of Club Punta Fuego	₱450,000	₱450,000
Less net unrealized loss on AFS financial asset	(240,000)	(250,000)
	<u>₱210,000</u>	<u>₱200,000</u>

The Group opted to apply the provisions of PAS 39 of the full PFRS for recognition and measurement of investment in quoted club share and PFRS for SMEs for the disclosure requirements.

The movements in net unrealized loss on AFS financial asset follow:

	2011	2010
At beginning of year	(₱250,000)	₱-
Changes in fair value of AFS financial asset	10,000	(250,000)
At end of year	<u>(₱240,000)</u>	<u>(₱250,000)</u>



8. Property and Equipment

The composition of and movements in this account follow:

	2011				
	IT Equipment	Leasehold Improvements	Office Equipment	Furniture & Fixtures	Total
Cost					
At beginning of year	₱4,164,325	₱394,436	₱3,578,701	₱1,846,790	₱9,984,252
Additions	147,911	24,711	382,718	93,608	648,948
Retirement	(1,284,208)	-	(1,651,392)	(963,650)	(3,899,250)
At end of year	3,028,028	419,147	2,310,027	976,748	6,733,950
Accumulated Depreciation and Amortization					
At beginning of year	3,287,875	31,167	3,282,240	1,309,449	7,910,731
Depreciation and amortization	453,664	226,586	299,392	157,036	1,136,678
Retirement	(1,284,208)	-	(1,586,461)	(963,650)	(3,834,319)
At end of year	2,457,331	257,753	1,995,171	502,835	5,213,090
Net Book Value	₱570,697	₱161,394	₱314,856	₱473,913	₱1,520,860

	2010				
	IT Equipment	Leasehold Improvements	Office Equipment	Furniture & Fixtures	Total
Cost					
At beginning of year	₱4,120,037	₱2,149,503	₱3,531,823	₱1,463,146	₱11,264,509
Additions	44,288	360,503	46,878	383,644	835,313
Retirement	-	(2,115,570)	-	-	(2,115,570)
At end of year	4,164,325	394,436	3,578,701	1,846,790	9,984,252
Accumulated Depreciation and Amortization					
At beginning of year	2,722,077	2,004,877	3,014,286	1,176,013	8,917,253
Depreciation and amortization	565,798	141,860	267,954	133,436	1,109,048
Retirement	-	(2,115,570)	-	-	(2,115,570)
At end of year	3,287,875	31,167	3,282,240	1,309,449	7,910,731
Net Book Value	₱876,450	₱363,269	₱296,461	₱537,341	₱2,073,521

Depreciation and amortization charged to cost of services amounted to ₱0.29 million and ₱0.26 million in 2011 and 2010, respectively (see Note 12).

Depreciation and amortization charged to general and administrative expenses amounted to ₱0.85 million in 2011 and 2010.

The Group's fully depreciated property and equipment with original aggregate cost of ₱2.88 million and ₱5.31 million are still in use as of December 31, 2011 and 2010, respectively.

9. Other Noncurrent Assets

This account consists of:

	2011	2010
Creditable withholding tax	₱2,038,315	₱4,308,898
Deposits	283,176	-
Deferred input VAT	894,919	110,797
	₱3,216,410	₱4,419,695



Creditable withholding tax can be applied against the Group's income tax payable.

Deposits pertain to the security deposit which can be refunded upon termination of the lease contract.

Deferred input VAT pertains to input VAT on accounts and other payables.

10. Accounts and Other Payables

	2011	2010
Accounts payable	₱6,963,991	₱2,275,079
Deferred output VAT	3,674,012	2,626,816
Taxes Payable	1,992,907	590,947
Accrued expenses	252,996	619,823
Others	129,637	469,353
	₱13,013,543	₱6,582,018

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

Accrued expenses represent incurred charges for the development of software and programs and are normally settled within one year. These are noninterest-bearing payables.

Deferred output VAT pertains to output VAT of trade receivables.

Taxes payable consists of VAT payable and withholding taxes payable.

Other payables are noninterest-bearing and are normally settled within one year.

11. Service Income

This account consists of:

	2011	2010
Local	₱94,947,080	₱47,818,260
Zero-rated	360,000	406,661
	₱95,307,080	₱48,224,921

Local sales are income earned from domestic clients while zero-rated income are nonvatable sales to foreign entity clients.



12. Cost of Services

This account consists of:

	2011	2010
Contractual services	₱23,553,579	₱3,932,478
Salaries, wages and employee benefits	21,929,304	18,695,583
Web hosting	6,733,747	8,518,321
Rent (Note 13)	737,100	728,325
Marketing and promotions	488,027	387,205
Depreciation	287,788	262,754
Commission	-	425,000
Prizes and winnings	-	71,400
Others	3,505,521	5,944,541
	₱57,235,066	₱38,965,607

13. Operating Lease Commitments

The Group entered into various lease agreements with third parties for the office spaces it is using. Leases have terms ranging from one (1) to three (3) years and renewable subject to new terms and conditions to be mutually agreed upon by both parties.

Total rental expense amounted to ₱1.66 million and ₱1.65 million for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the future minimum lease payments under these operating leases follow:

	2011	2010
Within one year	₱1,652,580	₱1,615,110
After one year but not more than 5 years	-	845,571
	₱1,652,580	₱2,460,681

14. 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. The transactions are made at terms and prices agreed upon by the parties. Transactions with related parties include noninterest-bearing advances and reimbursements of expenses incurred in connection with the contractual services and other services rendered by those related parties.



The following are the outstanding amounts on transactions with related parties as of December 31, 2011 and 2010:

- a.) Transactions with related parties include noninterest-bearing advances and reimbursements of operating and travel expenses related to product development incurred by the related parties. Advances to related parties from these transactions are recorded as "Trade receivables".

The following are the outstanding amounts on transactions with affiliates as of December 31, 2011 and 2010:

	2011	2010
Advances to related parties		
Starfish Mobile Technologies Pty.	₱2,316,252	₱2,316,252
Xurpas International	579,356	579,356
Others	614,584	614,584
	3,510,192	3,510,192
Less allowance for impairment losses	2,316,252	2,316,252
	₱1,193,940	₱1,193,940
Advances from a related party	₱134,017	₱109,158

For the year ended December 31, 2011 and 2010, the Group has recorded allowance for impairment losses on receivables amounting to ₱2.32 million relating to the amounts owed by related parties. This assessment is undertaken through examining the financial position of the related party and the market in which this related party operates. The movements in allowance for impairment losses amounted ₱0.01 million in 2010 (see Note 5). No additional allowance was provided in 2011.

- b.) The advances from a related party pertain to advances made by the stockholder for the payment of operating expenses of the Group.

Key management personnel of the Group include senior officers. Compensation of key management personnel consists of salaries amounting ₱1.99 million in 2011 and 2010.

Terms and conditions of transactions with related parties

There have been no guarantees provided or received for any related party receivables or 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.

15. Income Taxes

Provision for income tax consists of the following:

	2011	2010
Current	₱4,363,522	₱1,412,225
Final	15,086	15,994
	4,378,608	1,428,219
Deferred	3,304,238	588,454
	₱7,682,846	₱2,016,673



Registration with the Board of Investments (BOI)

The Group is registered with the BOI in accordance with the provision of the Omnibus Investment Code of 1987 with Certificate of Registration No. 2005-028 effective February 22, 2005 to February 21, 2009. On May 20, 2009, a one (1) year extension of Income Tax Holiday (ITH) incentive was granted to the Group. The approved bonus year under Certificate of Registration No. 2005-028 is for the period February 28, 2009 to February 27, 2010. The Group can avail of bonus year but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years.

On July 27, 2011 the Group registered with the BOI as expanding IT service firm in the field of software development on a non-pioneer status with Certificate Registration No. 2011-147 which, incorporates the agreed terms and conditions of the Group's registration, including all the fiscal and non-fiscal incentives available to the registered project as follow:

- a) ITH for the period of three (3) years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- b) Only income generated from the registered activity shall be entitled to ITH incentives. In the computation of ITH, a base figure of ₱81,407,344 shall be used, which is equivalent to the enterprise's highest attained sales for three (3) years prior to application for expansion.

Other incentives with no specific number of years of entitlement may be enjoyed for a maximum period of ten (10) years from the start of commercial operation and/or date of registration.

The Group availed of its ITH incentive granted by the BOI which amounted to ₱0.37 million and ₱0.14 million in 2011 and 2010, respectively.

The components of the Group's net deferred tax liabilities follow:

	2011	2010
Deferred tax assets on:		
NOLCO	₱1,296,401	₱1,324,151
Accrued expense	1,611,021	665,972
Allowance for impairment losses	75,016	1,440
Unrealized foreign currency exchange loss	5,564	26,374
Excess MCIT	-	55,111
	2,988,002	2,073,048
Deferred tax liabilities on accrued income	(8,487,307)	(4,213,004)
	(₱5,499,305)	(₱2,139,956)

The deferred tax assets relating to NOLCO have not been fully recognized in 2010 because management believes that there will be no sufficient taxable profit that will be available to allow all or part of the deferred tax assets to be utilized. This unrecognized deferred tax assets which amounted to ₱0.43 million as of December 31, 2010 was recognized in 2011.

In 2011, the Group applied NOLCO and MCIT incurred in 2010 amounting to ₱1.43 million and ₱0.06 million, respectively.



The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2011	2010
Provision for income tax computed at statutory income tax rate	₱8,354,039	₱51,643
Adjustments resulting from:		
Nondeductible expenses	137,995	850,941
Nondeductible provision for impairment losses	—	1,876
Others	—	833,333
Interest income subjected to final tax	(8,161)	(9,003)
Income under ITH	(373,115)	(140,029)
Change in unrecognized deferred tax assets	(427,912)	427,912
Provision for income tax	₱7,682,846	₱2,016,673

Nondeductible expenses composed of excess of the ceiling amount of representation and entertainment, penalties and compromise.

16. Equity

Capital stock

The Group has an authorized share capital of ₱10.00 million divided into 10,000,000 shares at ₱1 par value. As of December 31, 2011 and 2010, the number of total shares subscribed, issued and outstanding totaled 3,250,000 shares for a total amount of ₱3.25 million.

Retained earnings

In December 2011, the Group approved the appropriation of retained earnings for future dividend declaration amounting to ₱21.94 million. In November 2011, the Group declared and paid cash dividends amounting ₱0.44 million.

Dividends

At the BOD meeting held on November 30, 2010, the BOD declared cash dividends for distribution to stockholders not later than April 15, 2011 which amounted to ₱14.00 million to all stockholders of record as of December 31, 2010. Cash dividends which amounted to ₱1.4 million was paid on November 30, 2010.

The balance of dividends payable amounting to ₱16.05 million in 2010 shall be distributed to the said stockholders once the Group has available and sufficient cash for distribution of cash dividends. As of December 31, 2011 the undistributed balance under "Dividends payable" amounted to ₱7.10 million.

