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, 2012, 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 fr0m 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
Treasurer

FERNANDO JUDE F. GARCIA
Vice-President of Technology

Signed this 12th day of April , 2013

REPUBLIC OF THE PHILIPPINES)
MANILA) S.S.

SUBSCRIBED AND SWORN to before me this APR 1 2 2013 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. Nolledo	SSS 33-47670116	
Fernando Jude Fernando Garcia	SSS 33-66359285	
Raymond Gerard Sison Racaza	SSS 33-59850652	

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Book No. XIV
Series of 2013

ATTY. RONALD SE[illegible] C. CH[illegible]
NOTARY PUBLIC-CITY OF MANILA
ROLL [illegible]
IBP NO. 2763[illegible] 2012 MLA.
PTR NO. [illegible] 02-2013 MLA
VALID UNTIL DEC. 31, 2014

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

SGV & Co
Ernst & Young

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, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards 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, 2012 and 2011, 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
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. 08-001998-77-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670042, January 2, 2013, Makati City

April 12, 2013

XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash (Note 4)	**₱20,779,934**	₱12,107,901
Receivables (Notes 5 and 14)	**53,021,034**	38,023,413
Other current assets (Note 6)	**712,557**	2,334,735
Total Current Assets	**74,513,525**	52,466,049
Noncurrent Assets		
Available-for-sale financial asset (Note 7)	**230,000**	210,000
Property and equipment (Note 8)	**3,104,610**	1,520,860
Other noncurrent assets (Note 9)	**1,109,653**	1,178,095
Total Noncurrent Assets	**4,444,263**	2,908,955
	₱78,957,788	₱55,375,004
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Note 10)	**₱22,064,191**	₱20,153,259
Income tax payable	**2,887,607**	89,494
Total Current Liabilities	**24,951,798**	20,242,753
Noncurrent Liabilities		
Deferred tax liabilities - net (Note 15)	**13,666,437**	5,499,305
Total Liabilities	**38,618,235**	25,742,058
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)	**(220,000)**	(240,000)
Retained earnings (Note 16)	**28,481,090**	21,955,730
	31,511,090	24,965,730
Non-controlling interests	**8,828,463**	4,667,216
Total Equity	**40,339,553**	29,632,946
	₱78,957,788	₱55,375,004

See accompanying Notes to Consolidated Financial Statements.

XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2012	2011
REVENUE		
Service income (Note 11)	₱136,042,440	₱95,307,080
Interest (Note 4)	111,930	77,492
Miscellaneous	300	–
	136,154,670	95,384,572
COST AND EXPENSES		
Cost of services (Note 12)	63,581,185	57,235,066
Office supplies	2,110,539	1,316,842
Impairment losses (Notes 5 and 14)	1,641,024	250,054
Provision for probable losses	1,620,501	–
Transportation and travel	1,564,966	1,245,445
Entertainment, amusement and recreation	1,455,960	1,340,073
Communication, light and water	1,393,487	1,372,740
Rent (Note 13)	1,262,454	927,471
Depreciation and amortization (Note 8)	1,112,452	848,890
Salaries, wages and employee benefits	1,033,883	960,263
Taxes and licenses	696,881	712,466
Loss on asset write-off (Note 14)	579,356	64,931
Professional fees	352,000	311,580
Dues and subscription	319,684	125,786
Insurance	297,543	157,599
Seminar and trainings	142,500	65,357
Repairs and maintenance	108,613	12,886
Miscellaneous	1,324,273	590,328
	80,597,301	67,537,777
INCOME BEFORE INCOME TAX	55,557,369	27,846,795
PROVISION FOR INCOME TAX (Note 15)	17,345,038	7,682,846
NET INCOME	38,212,331	20,163,949
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale financial assets (Note 7)	20,000	10,000
TOTAL COMPREHENSIVE INCOME	₱38,232,331	₱20,173,949
Net income attributable to:		
Equity holders of Xurpas, Inc.	₱30,414,973	₱17,967,931
Non-controlling interests	7,797,358	2,196,018
	₱38,212,331	₱20,163,949
Total comprehensive income attributable to:		
Equity holders of Xurpas, Inc.	₱30,434,973	₱17,977,931
Non-controlling interests	7,797,358	2,196,018
	₱38,232,331	₱20,173,949

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31	
	2012	2011
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)		
Balance at beginning of year	**21,955,730**	4,425,491
Net income	**30,414,973**	17,967,931
Dividends declared	**(23,889,613)**	(437,692)
Balance at end of year	**28,481,090**	21,955,730
Net unrealized loss on available-for-sale financial asset (Note 7)		
Balance at beginning of year	**(240,000)**	(250,000)
Unrealized gain on available-for-sale financial asset	**20,000**	10,000
Balance at end of year	**(220,000)**	(240,000)
	31,511,090	24,965,730
NON-CONTROLLING INTERESTS		
Balance at beginning of year	**4,667,216**	2,471,198
Net income	**7,797,358**	2,196,018
Dividends paid to non-controlling interests	**(3,636,111)**	–
Balance at end of year	**8,828,463**	4,667,216
	₱40,339,553	₱29,632,945

See accompanying Notes to Consolidated Financial Statements.

XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱55,557,369	₱27,846,795
Adjustments for:		
Depreciation and amortization (Note 8)	1,292,447	1,136,678
Loss on asset write-off (Note 14)	579,356	64,931
Unrealized foreign currency exchange losses	56,420	18,546
Interest income (Note 4)	(111,930)	(77,492)
Operating income before changes in operating assets and liabilities	57,373,662	28,989,458
Changes in operating assets and liabilities		
Increase in:		
Receivables	(15,576,977)	(17,862,551)
Other current assets	(2,218,480)	(1,088,629)
Accounts and other payables	6,747,142	6,342,031
Net cash generated from operations	46,325,347	16,380,309
Interest received	89,802	62,406
Income taxes paid	(2,517,007)	(683,538)
Net cash provided by operating activities	43,898,142	15,759,177
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other noncurrent assets	68,442	(784,122)
Acquisitions of property and equipment (Note 8)	(1,679,697)	(648,948)
Net cash used in investing activities	(1,611,255)	(1,433,070)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in payable to a related party	1,062,483	24,859
Dividends paid (Note 16)	(34,620,917)	(9,388,356)
Net cash used in financing activities	(33,558,434)	(9,363,497)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	(56,420)	(18,546)
NET INCREASE IN CASH	8,672,033	4,944,064
CASH AT BEGINNING OF YEAR	12,107,901	7,163,837
CASH AT END OF YEAR (Note 4)	₱20,779,934	₱12,107,901

See accompanying Notes to Consolidated Financial Statements.

XURPAS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Xurpas, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 26, 2001. The 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 is at 1903 Antel 2000 Corporate Centre 121 Valero Street, 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 Street, Salcedo Village, Makati City. The Parent Company is currently in the process of filing the change of its business address at SEC and amending its Articles of Incorporation to reflect the change of its business address.

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the Board of Directors (BOD) on April 12, 2013.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements of the Group 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 consolidated financial statements of the Group have been prepared in accordance with the Philippine Financial Reporting Standards 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 ended December 31, 2012 and 2011.

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 profit or loss.

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 profit or loss.

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

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

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

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

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

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

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.

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
Information Technology (IT) equipment	5
Office equipment	2 to 5
Furniture and fixtures	2 to 5
Transportation equipment	5
Leasehold improvements	5 or shorter of the lease term

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 used and no further depreciation is charged against current operations.

Impairment of Nonfinancial Assets

At each reporting date, other current assets, 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.

Other Noncurrent Assets

Rental deposits

Rental deposits represent payments for security, utilities and other deposits made in relation to the lease agreements entered by the Group. These are carried at cost and will generally be applied as lease payments toward the end of the lease term.

Deferred input value-added tax

Deferred input value-added tax (VAT) represents input VAT related to accounts and other payable accrued by the Group. These will generally be applied to output VAT upon payment.

Accounts and Other Payables

Accounts and other payables are obligations on the basis of normal credit terms and do not bear interest. Accounts and other payables are measured initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

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 Group assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Service income

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

Interest income

Interest income is recognized as it accrues.

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.

Operating Leases

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

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

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

The Group as lessee

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

Income Tax

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. 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.

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 liabilities are measured at the tax rate that is expected to apply to the period 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 reporting date.

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

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

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

Events after the Reporting Date
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 lease for the office space it occupies. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of this property and so accounts for the contract as operating lease. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the Group. The Group accounts for its contract of lease as a noncancellable operating lease.

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 impairment losses 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. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

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

The carrying values of the Group's receivables amounted to ₱53.02 million and ₱38.02 million as of December 31, 2012 and 2011, respectively (see Note 5).

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 ₱3.10 million and ₱1.52 million as of December 31, 2012 and 2011, respectively (see Note 8).

Evaluating impairment of nonfinancial assets
The Group assesses impairment on its other current assets, property and equipment and other noncurrent assets 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, property and equipment and other noncurrent assets are as follows:

	2012	2011
Other current assets (Note 6)	**₱712,557**	₱2,334,735
Property and equipment (Note 8)	**3,104,610**	1,520,860
Other noncurrent assets (Note 9)	**1,109,653**	1,178,095
	₱4,926,820	₱5,033,690

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 ₱1.92 million and ₱2.99 million as of December 31, 2012 and 2011, respectively (see Note 15).

4. Cash

This account consists of:

	2012	2011
Cash on hand	**₱10,816**	₱13,504
Cash in banks	**20,769,118**	12,094,397
	₱20,779,934	₱12,107,901

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

In 2012 and 2011, total interest income earned from cash in banks amounted to ₱0.11 million and ₱0.08 million, respectively.

5. Receivables

This account consists of:

	2012	2011
Trade receivables (Note 14)	**₱54,201,448**	₱39,873,803
Advances to employee and stockholders (Note 14)	**656,933**	705,595
Others	**53,731**	10,321
	54,912,112	40,589,719
Less allowance for impairment losses	**1,891,078**	2,566,306
	₱53,021,034	₱38,023,413

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

Allowance for impairment losses pertained to individually impaired trade receivables. The movements in allowance for impairment losses follow:

	2012		
		Related parties	
	Third parties	**(Note 14)**	**Total**
At beginning of year	**₱250,054**	**₱2,316,252**	**₱2,566,306**
Provision for impairment loss	**1,641,024**	**–**	**1,641,024**
Write off	**–**	**(2,316,252)**	**(2,316,252)**
At end of year	**₱1,891,078**	**₱–**	**₱1,891,078**

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

6. Other Current Assets

This account consists of:

	2012	2011
Creditable withholding taxes	**₱534,557**	₱2,038,315
Deposits	**178,000**	130,000
Prepayments	–	148,450
Input value-added tax (VAT)	–	17,970
	₱712,557	₱2,334,735

Creditable withholding taxes can be applied against the Group's income tax payable in the future periods.

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

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

Input VAT is applied against output VAT. Any remaining balance is recoverable in the future periods.

7. Available-for-Sale Financial Asset

This account consists of:

	2012	2011
Quoted share	**₱450,000**	₱450,000
Less: Net unrealized loss on AFS financial asset	**(220,000)**	(240,000)
	₱230,000	₱210,000

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

	2012	2011
At beginning of year	**(₱240,000)**	(₱250,000)
Unrealized gain on AFS financial asset	**20,000**	10,000
At end of year	**(₱220,000)**	(₱240,000)

8. Property and Equipment

The composition of and movements in this account follow:

	2012					
	IT Equipment	Leasehold Improvements	Office Equipment	Furniture & Fixtures	Transportation Equipment	Total
Cost						
At beginning of year	₱3,028,028	₱419,147	₱2,310,027	₱976,748	₱–	₱6,733,950
Additions	332,467	397,641	616,218	333,371	1,196,500	2,876,197
Retirement	–	(443,271)	–	–	–	(443,271)
At end of year	3,360,495	373,517	2,926,245	1,310,119	1,196,500	9,166,876
Accumulated Depreciation and Amortization						
At beginning of year	2,457,331	257,753	1,995,171	502,835	–	5,213,090
Depreciation and amortization	350,196	243,506	221,874	237,571	239,300	1,292,447
Retirement	–	(443,271)	–	–	–	(443,271)
At end of year	2,807,527	57,988	2,217,045	740,406	239,300	6,062,266
Net Book Value	₱552,968	₱315,529	₱709,200	₱569,713	₱957,200	₱3,104,610

	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

Depreciation and amortization charged to cost of services amounted to ₱0.18 million and ₱0.29 million in 2012 and 2011, respectively (see Note 12).

Depreciation and amortization charged to general and administrative expenses amounted to ₱1.11 million and ₱0.85 million in 2012 and 2011, respectively.

The Group's fully depreciated property and equipment with original aggregate cost of ₱3.81 million and ₱2.88 million are still in use as of December 31, 2012 and 2011, respectively.

9. Other Noncurrent Assets

This account consists of:

	2012	2011
Deposits	**₱515,996**	₱283,176
Deferred input VAT	**593,657**	894,919
	₱1,109,653	₱1,178,095

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

Deferred input VAT is related to input tax on capital goods which is available for future application against output VAT in future periods.

10. Accounts and Other Payables

	2012	2011
Accounts payable	**₱9,626,650**	₱6,963,991
Accrued expenses	**1,941,652**	252,996
Taxes payable	**2,258,142**	1,903,413
Dividends payable (Note 16)	**–**	7,095,193
Payable to a related party (Note 14)	**1,196,500**	134,017
Deferred output VAT	**5,295,367**	3,674,012
Others	**1,745,880**	129,637
	₱22,064,191	₱20,153,259

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.

Taxes payable consists of VAT payable and withholding taxes payable.

Deferred output VAT pertains to output VAT on trade receivables.

Other payables consist of unpaid employee benefits. These are noninterest-bearing and are normally settled within one year.

11. Service Income

This account consists of:

	2012	2011
Local	**₱135,982,440**	₱94,947,080
Zero-rated	**60,000**	360,000
	₱136,042,440	₱95,307,080

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:

	2012	2011
Salaries, wages and employee benefits	**₱27,202,803**	₱21,929,304
Contractual services	**18,159,451**	23,553,579
Web hosting	**7,527,663**	6,733,747
Professional fee	**3,502,608**	1,883,984
Marketing and promotions	**3,266,179**	488,027
Rent (Note 13)	**838,153**	737,100
Material supplies and facilities	**389,019**	379,104
Commission	**380,556**	–
Transportation and travel	**304,293**	--
Depreciation (Note 8)	**179,995**	287,788
Others	**1,830,465**	1,242,433
	₱63,581,185	₱57,235,066

13. 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.

a. In 2010, the Parent Company and T.G.N. Realty Corporation executed a contract of lease for a period of two years commencing on September 18, 2010. The applicable rental rate per month is ₱0.07 million and a corresponding increase of 7% on the second year of the lease. Accordingly, the Company written-off leasehold improvements amounting ₱0.42 million due to relocation of Company's office in 2012 (Note 8).

b. In 2012, the Parent Company entered into a new lease contract with Trends and Technologies Holdings, Inc. for a period of two years commencing on May 1, 2012 and expiring on April 30, 2014. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.10 million and a corresponding increase of 5% on the second year of the lease.

c. The Subsidiary entered into a lease agreement with Asian Diamond Plans, Inc. for a period of three years commencing on April 30, 2011. The applicable rental rate per month is ₱0.07 million. In 2012, the Subsidiary entered another lease agreement for a period of one year commencing on September 17, 2012 with an applicable rate of ₱0.02 million per month.

Total rent expense amounted to ₱2.10 million and ₱1.66 million for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the future minimum lease payments under these operating leases follow:

	2012	2011
Within one year	**₱1,217,510**	₱1,652,580
After one year but not more than 5 years	**412,382**	–
	₱1,629,892	₱1,652,580

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 significant transactions with related parties follow:

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 or from related parties from these transactions are recorded as 'Trade receivable' and 'Trade payable', respectively.

b.) The payable to a related party pertain to advances made by a stockholder for the payment of operating expenses and purchase of transportation vehicle of the Subsidiary.

Details of transactions with related parties and their outstanding payables to a related party as of December 31, 2012 and 2011 follow:

		2012		2011			
Related Party	**Relationship**	**Amount/ Volume**	**Outstanding Balance**	**Amount Volume**	**Outstanding Balance**	**Terms**	**Condition**
Huber Ang	Stockholder	**₱1,196,500**	**₱1,196,500**	₱–	₱–	Non-interest bearing	Unsecured, no impairment
Raymond Racaza	-do-	–	--	24,859	134,017	-do-	-do-
		₱1,196,500	**₱1,196,500**	₱24,859	₱134,017		

c.) During 2012, the Group's trade receivable from Starfish Mobile Technologies Pty. and Xurpas International are written off amounting ₱2.32 million and ₱0.58 million, respectively. The Group does not expect that the asset will be recovered.

Details of transactions with related parties and their outstanding receivables from related parties as of December 31, 2012 and 2011 follow:

		2012		2011			
Related Party	Relationship	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance	Terms	Condition
Starfish Mobile Technologies Pty.	Common shareholder and executive officer	₱308,831	₱308,831	₱–	₱2,316,252	Non-interest bearing	Unsecured, no impairment in 2012
Xurpas International	-do-	–	–	–	579,356	-do-	Unsecured, no impairment
Rollen Facundo	-do-	96,348	96,348	–	–	-do-	-do-
Suzette Facundo	-do-	60,767	60,767	–	–	-do-	-do-
		465,946	465,946	–	2,895,608		
Allowance for impairment losses (Note 5)		–	–	–	2,316,252		
		₱465,946	₱465,946	₱–	₱579,356		

d.) Key management personnel of the Subsidiary include senior officers. Compensation of key management personnel consists of salaries which amounted to ₱2.41 million and ₱1.99 million in 2012 and 2011, respectively.

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.

15. Income Taxes

Provision for income tax consists of the following:

	2012	2011
Current	**₱9,155,778**	₱4,363,522
Final	**22,128**	3,304,238
	9,177,906	7,667,760
Deferred	**8,167,132**	15,086
	₱17,345,038	₱7,682,846

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 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 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 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 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 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 nil and ₱0.37 million in 2012 and 2011, respectively.

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

	2012	2011
Deferred tax assets on:		
Accrued expense	**₱1,334,373**	₱1,611,021
Allowance for impairment losses	**567,323**	75,016
Unrealized foreign currency exchange losses	**16,926**	5,564
NOLCO	–	1,296,401
	1,918,622	2,988,002
Deferred tax liabilities on accrued income	**(15,585,059)**	(8,487,307)
	(₱13,666,437)	(₱5,499,305)

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:

	2012	2011
Provision for income tax computed at statutory income tax rate	**₱16,667,211**	₱8,354,039
Adjustments resulting from:		
Nondeductible expenses	**689,277**	137,995
Income under ITH	–	(373,115)
Change in unrecognized deferred tax assets	–	(427,912)
Interest income subjected to final tax	**(11,450)**	(8,161)
Provision for income tax	**₱17,345,038**	₱7,682,846

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, 2012 and 2011, the number of total shares subscribed, issued and outstanding totaled 3,250,000 shares for a total amount of ₱3.25 million.

Retained earnings
On February 2, 2012, the Subsidiary's BOD approved the release from appropriation of retained earnings for cash dividends amounting ₱7.60 million and approved the payment of cash dividends amounting ₱2.05 million on February 14, 2012 to stockholders on record as of December 31, 2011.

On June 29, 2012, the Parent Company's BOD approved and authorized the declaration from the unappropriated retained earnings of the Corporation, a cash dividend of approximately ₱3.08 per share, or the aggregate amount of ₱10.00 million to all stockholders of record as of June 30, 2012 for distribution not later than June 30, 2012.

On September 1, 2012, the Subsidiary's BOD approved the payment of cash dividends amounting ₱5.56 million to be equally paid on September 25 and 26 to stockholders on record as of December 31, 2011.

On October 16, 2012, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱1.20 per share, or the aggregate in the amount of ₱3.89 million to all shareholders of record as of September 30, 2012 for distribution not later than November 30, 2012.

On December 1, 2012, the Subsidiary's BOD approved the appropriation of retained earnings for future dividend declaration amounting ₱8.33 million to stockholders on record as of November 30, 2012. The Company's BOD also approved the payment of cash dividends amounting ₱2.78 million on December 20, 2012 to stockholders on record as of November 30, 2012.

On December 26, 2012, the Subsidiary's BOD approved the appropriation of retained earnings for future dividend declaration amounting ₱4.44 million to stockholders on record as of December 31, 2012. The Company's BOD also approved the appropriation of retained earnings amounting ₱8.00 million for future expansion of business office and for expenditures related to the retirement benefits of the Company.

On December 28, 2012, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱3.08 per share, or the aggregate in the amount of ₱10.00 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as of December 31, 2012 not later than December 31, 2012.

On December 28, 2012, the Parent Company's BOD approved the appropriation of retained earnings for future cash dividends of approximately ₱3.91 per share, or the aggregate in the amount of ₱12.70 million for distribution to its stockholders of record as of December 31, 2012.

On March 13, 2013, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱3.08 per share, or the aggregate in the amount of ₱10.00 million out of the Parent's Company's unrestricted retained earnings as of December 31, 2012.

The Parent Company declared and paid cash dividends amounting ₱0.44 million in 2011.

As of December 31, 2011, the undistributed balance under "Dividends payable" amounted to ₱7.10 million. This was subsequently paid in 2012.