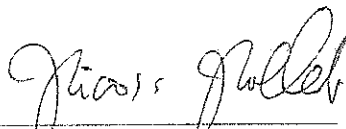


**"STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
CONSOLIDATED FINANCIAL STATEMENTS"**

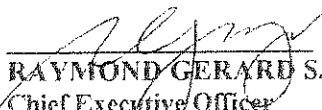
The management of XURPAS, INC. is responsible for the preparation and fair presentation of the **consolidated** financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the **consolidated** 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 reviews and approves the **consolidated** financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the **consolidated** financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, 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 21st day of March, 2014

REPUBLIC OF THE PHILIPPINES)

MANILA

) S.S.

MAR 21 2014

SUBSCRIBED AND SWORN to before me this _____ 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. 428Page No. 43Book No. 1/1Series of 20 1/1 *Handwritten signature*

Handwritten signature
ATTY. RONALD SEGUNDINO C. CHING
Notary Public - Manila
Roll No. 22989

IBP No. 928-10-12-10-13

PTR No. 34207133-01-02-14

Valid Until Dec - 31, 2014

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Xurpas, Inc. and Subsidiary
1903 Antel 2000 Corporate Centre 121
Valero Street, Salcedo Village, Makati City

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, 2013 and 2012, and the 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.





Building a better
working world

- 2 -

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, 2013 and 2012, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna

Partner

CPA Certificate No. 36317

SEC Accreditation No. 0069-AR-3 (Group A),

February 14, 2013, valid until February 13, 2016

Tax Identification No. 102-082-365

BIR Accreditation No. 08-001998-10-2012,

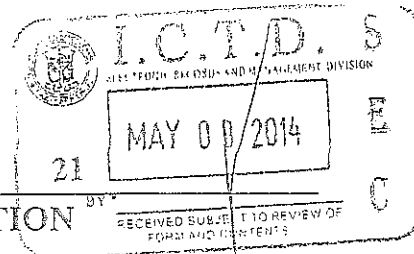
April 11, 2012, valid until April 10, 2015

PTR No. 4225155, January 2, 2014, Makati City

March 21, 2014



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



| | December 31 | |
|--|---------------------|--------------------|
| | 2013 | 2012 |
| ASSETS | | |
| Current Assets | | |
| Cash (Note 4) | ₱86,502,675 | ₱20,779,934 |
| Receivables (Notes 5 and 13) | 83,431,446 | 53,021,034 |
| Other current assets (Note 6) | 2,314,388 | 1,306,214 |
| Total Current Assets | 172,248,509 | 75,107,182 |
| Noncurrent Assets | | |
| Available-for-sale financial assets (Note 7) | 3,822,123 | 230,000 |
| Property and equipment (Note 8) | 4,260,999 | 3,104,610 |
| Deferred tax assets (Note 14) | 1,693,544 | - |
| Other noncurrent assets | 120,370 | 515,996 |
| Total Noncurrent Assets | 9,897,036 | 3,850,606 |
| | ₱182,145,545 | ₱78,957,788 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts and other payables (Notes 9 and 13) | ₱38,440,439 | ₱22,064,191 |
| Income tax payable | 13,416,973 | 2,887,607 |
| Total Current Liabilities | 51,857,412 | 24,951,798 |
| Noncurrent Liabilities | | |
| Deferred tax liabilities - net (Note 14) | 8,611,696 | 13,666,437 |
| Total Liabilities | 60,469,108 | 38,618,235 |
| Equity (Notes 7 and 15) | | |
| Equity attributable to equity holders of Xurpas, Inc. | | |
| Capital stock | 3,250,000 | 3,250,000 |
| Retained earnings | 108,924,350 | 28,481,090 |
| Unrealized loss on available-for-sale financial assets | (230,000) | (220,000) |
| | 111,944,350 | 31,511,090 |
| Non-controlling interests | 9,732,087 | 8,828,463 |
| Total Equity | 121,676,437 | 40,339,553 |
| | ₱182,145,545 | ₱78,957,788 |

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|-------------------------|--------------------|
| | 2013 | 2012 |
| REVENUE | | |
| Service income (Note 10) | ₱251,814,243 | ₱136,042,440 |
| Interest income (Note 4) | 174,986 | 111,930 |
| Other income | 67,219 | 300 |
| | 252,056,448 | 136,154,670 |
| COST AND EXPENSES | | |
| Cost of services (Note 11) | 88,855,425 | 63,581,185 |
| Supplies | 3,581,395 | 2,110,539 |
| Transportation and travel | 3,553,198 | 1,564,966 |
| Salaries, wages and employee benefits | 3,062,989 | 1,033,883 |
| Entertainment, amusement and recreation | 2,284,633 | 1,455,960 |
| Professional fees | 2,112,290 | 352,000 |
| Depreciation and amortization (Note 8) | 1,897,545 | 1,112,452 |
| Rent (Note 12) | 1,267,136 | 1,262,454 |
| Communication, light and water | 1,143,338 | 1,393,487 |
| Insurance | 602,340 | 297,543 |
| Dues and subscription | 509,672 | 319,684 |
| Repairs and maintenance | 471,035 | 108,613 |
| Taxes and licenses | 385,854 | 696,881 |
| Provision for impairment losses (Note 5) | 317,424 | 1,641,024 |
| Seminar and trainings | 9,000 | 142,500 |
| Miscellaneous | 943,375 | 3,524,130 |
| | 110,996,649 | 80,597,301 |
| INCOME BEFORE INCOME TAX | 141,059,799 | 55,557,369 |
| PROVISION FOR INCOME TAX (Note 14) | 20,596,248 | 17,345,038 |
| NET INCOME | 120,463,551 | 38,212,331 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Item that will not be reclassified to profit or loss | | |
| Unrealized gain (loss) on available-for-sale financial assets (Note 7) | (10,000) | 20,000 |
| TOTAL COMPREHENSIVE INCOME | ₱120,453,551 | ₱38,232,331 |
| Net income attributable to: | | |
| Equity holders of Xurpas, Inc. | ₱113,143,260 | ₱30,414,973 |
| Non-controlling interests | 7,320,291 | 7,797,358 |
| | ₱120,463,551 | ₱38,212,331 |
| Total comprehensive income attributable to: | | |
| Equity holders of Xurpas, Inc. | ₱113,133,260 | ₱30,434,973 |
| Non-controlling interests | 7,320,291 | 7,797,358 |
| | ₱120,453,551 | ₱38,232,331 |

See accompanying Notes to Consolidated Financial Statements.



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

| | Years Ended December 31 | |
|--|-------------------------|--------------|
| | 2013 | 2012 |
| ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS, INC. | | |
| Capital stock - ₱1 par value (Note 15) | | |
| Authorized - 10,000,000 shares | | |
| Issued and outstanding - 3,250,000 shares | | |
| Balance at beginning and end of year | ₱3,250,000 | ₱3,250,000 |
| Retained earnings (Note 15) | | |
| Appropriated | | |
| Appropriated for dividend declaration | 91,500,000 | — |
| Unappropriated | | |
| Balance at beginning of year | 28,481,090 | 21,955,730 |
| Net income | 113,143,260 | 30,414,973 |
| Dividends declared | (32,700,000) | (23,889,613) |
| Appropriations | (91,500,000) | — |
| Balance at end of year | 17,424,350 | 28,481,090 |
| | 108,924,350 | 28,481,090 |
| Net unrealized loss on available-for-sale financial assets (Note 7) | | |
| Balance at beginning of year | (220,000) | (240,000) |
| Unrealized gain on available-for-sale financial assets | (10,000) | 20,000 |
| Balance at end of year | (230,000) | (220,000) |
| | 111,944,350 | 31,511,090 |
| NON-CONTROLLING INTERESTS | | |
| Balance at beginning of year | 8,828,463 | 4,667,216 |
| Net income | 7,320,291 | 7,797,358 |
| Dividends paid to non-controlling interests | (6,416,667) | (3,636,111) |
| Balance at end of year | 9,732,087 | 8,828,463 |
| | ₱121,676,437 | ₱40,339,553 |

See accompanying Notes to Consolidated Financial Statements.



XURPAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|-------------------------|--------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱141,059,799 | ₱55,557,369 |
| Adjustments for: | | |
| Depreciation and amortization (Note 8) | 2,190,522 | 1,292,447 |
| Provision for impairment losses | 317,424 | — |
| Loss on asset write-off | — | 579,356 |
| Unrealized foreign currency exchange loss (gain) | (67,219) | 56,420 |
| Interest income (Note 4) | (174,986) | (111,930) |
| Operating income before changes in working capital | 143,325,540 | 57,373,662 |
| Changes in working capital | | |
| Decrease (increase) in: | | |
| Receivables | (30,727,836) | (15,576,977) |
| Other current assets | (1,008,174) | 1,622,178 |
| Increase in accounts and other payables | 16,376,248 | 1,910,932 |
| Net cash generated from operations | 127,965,778 | 45,329,795 |
| Interest received | 174,986 | 111,930 |
| Income taxes paid | (16,815,167) | (6,379,793) |
| Net cash provided by operating activities | 111,325,597 | 39,061,932 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of available-for-sale financial assets (Note 7) | (3,602,123) | — |
| Acquisitions of property and equipment (Note 8) | (3,346,911) | (2,876,197) |
| Decrease in other noncurrent assets | 395,626 | 68,442 |
| Net cash used in investing activities | (6,553,408) | (2,807,755) |
| CASH FLOWS FROM FINANCING ACTIVITY | | |
| Dividends paid (Note 15) | (39,116,667) | (27,525,724) |
| EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH | 67,219 | (56,420) |
| NET INCREASE IN CASH | 65,722,741 | 8,672,033 |
| CASH AT BEGINNING OF YEAR | 20,779,934 | 12,107,901 |
| CASH AT END OF YEAR (Note 4) | ₱86,502,675 | ₱20,779,934 |



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) are to develop, produce, sell, buy or otherwise deal in products, goods or services in connection with the transmission, receiving, or exchange of voice, data, video or any form or kind of communication whatsoever.

The Parent Company's registered office address 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 were approved and authorized for issue by the Board of Directors (BOD) on March 21, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis except for available-for-sale (AFS) financial assets, which has been 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 at December 31, 2013 and 2012 and for the years then ended.

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.



Noncontrolling interests represent the portion of profit or loss and net assets in a subsidiary not wholly owned and 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.

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

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

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

The consolidated financial statements represent the consolidated financial statements of the Parent Company and its subsidiary, Fluxion, Inc., which is 65% owned by the Parent Company. The other 35% is owned by the subsidiary's stockholders.

Basic Financial Instruments

The Group accounts for its financial instruments as basic financial instruments in accordance with PFRS for SMEs Section 11, *Basic Financial Instruments*.

The Group recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. The Group recognizes a financial asset or a financial liability at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the Group measures the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar instrument.

Financial Assets

The Group's financial assets include cash and receivables.

Cash

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

Receivables

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



At the end of each reporting period, the carrying amount of receivables is reviewed to determine whether there is any objective evidence that the amount is not recoverable. Any impairment loss is recognized immediately in profit or loss. The amount of impairment 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.

Receivables are included in current assets if collectible within 12 months from the balance sheet date. Otherwise, this is classified as noncurrent assets.

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 and debt securities.

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 consolidated statement of comprehensive income until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the profit or loss and removed from unrealized gain or loss on AFS financial assets. AFS financial assets which are not quoted are subsequently carried at cost less allowance for impairment losses.

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

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

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

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



Financial Liabilities

The Group's financial liabilities include accounts and other payables (except deferred output VAT, taxes payable and those non-contractual liabilities and liabilities to government agencies). Financial liabilities are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method. A financial liability is classified as current liability when it is due to be settled within 12 months from the balance sheet date and the Group does not have an unconditional right to defer the settlement beyond 12 months the balance sheet date. Financial liabilities that are due to be settled beyond 12 months from the balance sheet date are classified as noncurrent liabilities.

Accounts and other payables

Accounts and other payables are obligation on the basis of normal credit terms and do not bear interest. These are recognized in the period in which the related money, goods, or services are received or when a legally enforceable claim against the Group is established or when the corresponding assets or expenses are recognized.

Impairment of Financial 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.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.



Financial liability

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

Other Current Assets

Other current assets consist of expenses not yet incurred but are already paid in cash. Other current assets are measured at the amount of cash paid. Subsequently, these are charged to the consolidated statements of comprehensive income as they are consumed in operations or expire with the passage of time.

Property and Equipment

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

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

| | Years |
|---------------------------------------|---|
| Information technology (IT) equipment | 4 |
| Furniture and fixtures | 3 to 5 |
| Office equipment | 3 to 4 |
| Transportation equipment | 3 |
| Leasehold improvements | 4 years or lease term whichever is shorter |

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

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

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

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

Other Noncurrent Assets

Other noncurrent assets pertain to refundable deposits 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.



Equity

Capital stock

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

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

Retained earnings

Retained earnings represent accumulated income 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 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 (using the EIR method).

Other income

Other income is recognized as they accrue.

Cost and Expenses

"Cost of services" and "general and administrative expenses" are expenditures that arise in the course of the ordinary operations of the Group. The following specific recognition criteria must also be met before costs and expenses are recognized.



Cost of services

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

General and administrative expense

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

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 income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss.

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

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

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

Foreign Currency Transactions

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

Value-Added Tax (VAT)

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

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

The net amount of tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated statements of financial position.

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. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the Group's financial statements but are disclosed in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefit is probable.



Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the statement of financial position date (adjusting events) are reflected in the financial statements. However, post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments and Estimates and Assumptions

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

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

Judgment

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

Determining functional currency

The Group, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Group primarily operates.

Operating lease commitments - Group as lessee

The Group's lease arrangements on certain office spaces and various facilities are determined to be operating leases, where a significant portion of the risks and rewards of ownership are retained by the lessor since the leased property will be returned to the lessor upon termination of the lease.

Management's Use of Estimates

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

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 ₱83.43 million and ₱53.02 million as of December 31, 2013 and 2012, respectively (see Note 5).

Evaluating impairment of AFS equity securities

The Group treats AFS equity securities 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 ₱4.26 million and ₱3.10 million as of December 31, 2013 and 2012, 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 values of these nonfinancial assets follow:

| | 2013 | 2012 |
|---------------------------------|-------------------|-------------------|
| Other current assets (Note 6) | ₱2,314,388 | ₱1,306,214 |
| Property and equipment (Note 8) | 4,260,999 | 3,104,610 |
| Other noncurrent assets | 120,370 | 515,996 |
| | <u>₱6,695,757</u> | <u>₱4,926,820</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 ₱1.69 million and nil as of December 31, 2013 and 2012, respectively (see Note 14).

4. Cash

This account consists of:

| | 2013 | 2012 |
|---------------|--------------------|--------------------|
| Cash on hand | ₱10,000 | ₱10,816 |
| Cash in banks | 86,492,675 | 20,769,118 |
| | <u>₱86,502,675</u> | <u>₱20,779,934</u> |

Cash in banks earn interest at the prevailing bank deposit rates. In 2013 and 2012, interest income earned from cash in banks amounted to ₱0.17 million and ₱0.11 million, respectively.

5. Receivables

This account consists of:

| | 2013 | 2012 |
|--------------------------------------|--------------------|--------------------|
| Trade receivables | ₱81,020,066 | ₱52,691,960 |
| Receivable from related parties | 1,918,477 | 1,666,786 |
| Advances to employees | 490,088 | 499,635 |
| Others | 2,815 | 53,731 |
| | <u>83,431,446</u> | <u>54,912,112</u> |
| Less allowance for impairment losses | — | 1,891,078 |
| | <u>₱83,431,446</u> | <u>₱53,021,034</u> |

Trade receivables arise mainly from the mobile content and solution services rendered by the Group to its major customer, Globe Telecommunications, Inc. and other companies. These are noninterest-bearing and are generally settled on a 90-day term.

Receivable from related parties are noninterest-bearing and are due and demandable (see Note 13).

Advances to employees pertain to noninterest-bearing salary loans made by the employees and are collectible in one year.

Other receivables are noninterest bearing and are generally collectible within one year.

Allowance for impairment losses pertains to individually impaired trade receivables.



The movements in allowance for impairment losses follow:

2013

| | Third parties | Related parties (Note 13) | Total |
|--------------------------------|---------------|------------------------------|-------------|
| At beginning of year | ₱1,891,078 | ₱- | ₱1,891,078 |
| Provision for impairment loss* | 355,514 | - | 355,514 |
| Write off | (2,246,592) | - | (2,246,592) |
| At end of year | ₱- | ₱- | ₱- |

*Gross of deferred output VAT amounting to ₱0.04 million.

2012

| | Third parties | Related parties (Note 13) | 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 |

In 2013 and 2012, the BOD approved the write off of trade receivables amounting to ₱2.25 million and ₱2.32 million, respectively.

6. Other Current Assets

This account consists of:

| | 2013 | 2012 |
|------------------------------|-------------------|-------------------|
| Deferred input VAT | ₱1,670,213 | ₱593,657 |
| Refundable deposits | 374,371 | 178,000 |
| Prepaid expense | 269,804 | - |
| Creditable withholding taxes | - | 534,557 |
| | ₱2,314,388 | ₱1,306,214 |

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

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

Prepaid expenses mainly include prepayments for rentals, membership dues and taxes.

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



7. Available-for-Sale Financial Assets

This account consists of:

| | 2013 | 2012 |
|---|-------------------|-----------------|
| Convertible bonds of Pico Candy Pte. Ltd. | ₱3,602,123 | ₱- |
| Quoted share of Club Punta Fuego | 220,000 | 230,000 |
| | <u>₱3,822,123</u> | <u>₱230,000</u> |

The rollforward analysis of net unrealized loss on AFS financial asset follows:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Balance at beginning of year | (₱220,000) | (₱240,000) |
| Unrealized gain (loss) on AFS financial asset | (10,000) | 20,000 |
| Balance at end of year | <u>(₱230,000)</u> | <u>(₱220,000)</u> |

In August 2013, the Group invested in Pico Candy Pte. Ltd. through convertible bonds amounting to \$0.10 million, which is equivalent to ₱3.60 million.

8. Property and Equipment

The composition of and movements in this account follow:

2013

| | IT Equipment | Leasehold Improvements | Office Equipment | Furniture and Fixtures | Transportation Equipment | Total |
|----------------------------------|-----------------|---------------------------|---------------------|------------------------------|-----------------------------|-------------|
| Cost | | | | | | |
| At beginning of year | ₱3,360,495 | ₱397,641 | ₱2,926,245 | ₱1,310,119 | ₱1,196,500 | ₱9,191,000 |
| Additions | 462,343 | - | 432,213 | 29,420 | 2,422,935 | 3,346,911 |
| Retirement | (2,258,237) | - | - | - | - | (2,258,237) |
| At end of year | 1,564,601 | 397,641 | 3,358,458 | 1,339,539 | 3,619,435 | 10,279,674 |
| Accumulated | | | | | | |
| Depreciation and Amortization | | | | | | |
| At beginning of year | 2,807,527 | 82,112 | 2,217,045 | 740,406 | 239,300 | 6,086,390 |
| Depreciation and amortization | 380,727 | 199,076 | 377,293 | 203,933 | 1,029,493 | 2,190,522 |
| Retirement | (2,258,237) | - | - | - | - | (2,258,237) |
| At end of year | 930,017 | 281,188 | 2,594,338 | 944,339 | 1,268,793 | 6,018,675 |
| Net Book Value | ₱634,584 | ₱116,453 | ₱764,120 | ₱395,200 | ₱2,350,642 | ₱4,260,999 |



2012

| | IT Equipment | Leasehold Improvements | Office Equipment | Furniture and 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 | - | (419,147) | - | - | - | (419,147) |
| At end of year | 3,360,495 | 397,641 | 2,926,245 | 1,310,119 | 1,196,500 | 9,191,000 |
| 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 | - | (419,147) | - | - | - | (419,147) |
| At end of year | 2,807,527 | 82,112 | 2,217,045 | 740,406 | 239,300 | 6,086,390 |
| Net Book Value | ₱552,968 | ₱315,529 | ₱709,200 | ₱569,713 | ₱957,200 | ₱3,104,610 |

Depreciation and amortization charged as "Cost of Services" under "Cost and Expenses" account in the consolidated statements of comprehensive income amounted to ₱0.29 million and ₱0.18 million in 2013 and 2012, respectively.

The Group's fully depreciated property and equipment with aggregate cost of ₱2.48 million and ₱3.81 million are still in use as of December 31, 2013 and 2012, respectively.

9. Accounts and Other Payables

| | 2013 | 2012 |
|----------------------------|--------------------|--------------------|
| Payable to related parties | ₱11,228,326 | ₱4,046,433 |
| Trade payable | 10,179,143 | 6,776,717 |
| Taxes payable | 8,848,969 | 2,258,142 |
| Deferred output VAT | 5,650,871 | 5,295,367 |
| Accrued expenses | 1,898,631 | 1,941,652 |
| Others | 634,499 | 1,745,880 |
| | ₱38,440,439 | ₱22,064,191 |

Payable to related parties is noninterest bearing and is due and demandable (see Note 13).

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

Taxes payable consists of output VAT after application of available input VAT and expanded withholding tax on payment to suppliers and employees' compensation which are settled on a monthly basis.

Deferred output VAT represents deferral of output VAT related to trade receivables for the services rendered by the Group. These will be recognized as output VAT and applied against input VAT upon receipt of payment.



Accrued expenses mainly consist of professional fees, utilities, transportation and travel and supplies. These are noninterest bearing and are normally settled within one year.

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

10. Service Income

This account consists of:

| | 2013 | 2012 |
|------------|--------------|--------------|
| Local | ₱251,814,243 | ₱135,982,440 |
| Zero-rated | — | 60,000 |
| | ₱251,814,243 | ₱136,042,440 |

Service income pertains to revenues earned from mobile content services, such as mobile solution and promotions, content development and management, and key platform development services, rendered by the Group to its major customer, Globe Telecommunications, Inc. and other companies.

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

11. Cost of Services

This account consists of:

| | 2013 | 2012 |
|--|-------------|-------------|
| Contractual services | ₱37,505,321 | 18,159,451 |
| Salaries, wages and employee benefits | 33,712,834 | ₱27,202,803 |
| Web hosting | 7,702,567 | 7,527,663 |
| Professional fee | 3,407,185 | 3,502,608 |
| Marketing and promotions | 1,929,812 | 3,266,179 |
| Commission | 1,055,556 | 380,556 |
| Rent (Note 12) | 918,994 | 838,153 |
| Material supplies and facilities | 448,986 | 389,019 |
| Transportation and travel | 332,689 | 304,293 |
| Depreciation and amortization (Note 8) | 292,977 | 179,995 |
| Others | 1,548,504 | 1,830,465 |
| | ₱88,855,425 | ₱63,581,185 |



12. 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 Parent Company written-off leasehold improvements amounting ₱0.42 million due to relocation of Parent 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 ₱2.19 million and ₱2.10 million for the years ended December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the future minimum lease payments under these operating leases follow:

| | 2013 | 2012 |
|--|----------|------------|
| Within one year | ₱685,382 | ₱1,217,510 |
| After one year but not more than 5 years | — | 412,382 |
| | ₱685,382 | ₱1,629,892 |

13. 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.



Details of transactions with related parties and their outstanding payables to a related party as of December 31, 2013 and 2012 follow:

| | | | Outstanding Balance | | | | | |
|------------------|-------------------------------|--------------------------|---------------------|-------------|------------|-------------|------------|------------|
| | | | Amount/Volume | | 2013 | | 2012 | |
| | Terms | Conditions | 2013 | 2012 | Receivable | Payable | Receivable | Payable |
| Affiliates | | | | | | | | |
| Cost of services | Noninterest-bearing | Unsecured, no impairment | ₱20,473,747 | ₱10,279,799 | ₱1,609,646 | ₱9,678,326 | ₱1,200,657 | ₱2,849,933 |
| Advances | Noninterest-bearing | Unsecured, no impairment | - | 308,831 | 308,831 | - | 308,831 | - |
| | | | 20,473,747 | 10,588,630 | 1,918,477 | 9,678,326 | 1,509,488 | 2,849,933 |
| Stockholders | | | | | | | | |
| Advances | One year; noninterest-bearing | Unsecured, no impairment | 1,550,000 | 1,196,500 | - | 1,550,000 | 157,298 | 1,196,500 |
| Cash dividend | Due and demandable | Unsecured, no impairment | 5,984,456 | 3,636,111 | - | - | - | - |
| | | | 7,534,456 | 4,832,611 | - | 1,550,000 | 157,298 | 1,196,500 |
| | | | ₱28,008,203 | ₱15,421,241 | ₱1,918,477 | ₱11,228,326 | ₱1,666,786 | ₱4,046,433 |

Affiliates:

- Transactions of the Group with Digital Storm, Inc. (DSI) pertain to revenue sharing on the compensation received as operational partner of the Group for the mobile content services rendered to Globe Telecommunications, Inc. and other companies. Total contractual services charged under "Cost of services" account in the consolidated statements of comprehensive income amounted to ₱20.47 million and ₱10.28 million in 2013 and 2012, respectively, and outstanding payables amounted to ₱9.68 million and ₱2.85 million as of December 31, 2013 and 2012, respectively.

In addition, the Group has outstanding receivables from DSI amounted to ₱1.61 million and ₱1.20 million as of December 31, 2013 and 2012, respectively for the operational expenditures incurred by the Group on its behalf.

- Transactions from Starfish Mobile Technologies Pty. pertain to advances for its operational expenditures amounting to ₱0.31 million as of December 31, 2013 and 2012.

During 2012, the Group's trade receivable from Starfish Mobile Technologies Pty. was written off amounting to ₱2.32 million. This was undertaken through examining the financial position of the related party and the market in which this related party operates. The Group does not expect that the asset will be recovered (see Note 5)

Stockholders:

- Transactions with stockholders pertain to advances for the acquisition of property and equipment and operating expenditures that were shouldered on the Group's behalf. As of December 31, 2013 and 2012, outstanding payables amounted ₱1.55 million and ₱1.20 million, respectively.
- In 2013 and 2012, the stockholders received cash dividends from the Group amounted to ₱32.70 million and ₱23.89 million, 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.

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱10.28 million and ₱9.06 million in 2013 and 2012, respectively.

14. Income Taxes

Provision for income tax consists of the following:

| | 2013 | 2012 |
|----------|--------------------|--------------------|
| Current | ₱27,972,942 | ₱9,155,778 |
| Final | 34,749 | 22,128 |
| Deferred | (7,411,443) | 8,167,132 |
| | <u>₱20,596,248</u> | <u>₱17,345,038</u> |

The components of the Group's net deferred taxes are as follows:

Deferred tax assets:

| | 2013 | 2012 |
|---|-------------------|-----------|
| Deferred tax assets arising from: | | |
| Accrued expenses | ₱1,695,087 | ₱- |
| Unrealized foreign currency exchange gain | (1,543) | - |
| | <u>₱1,693,544</u> | <u>₱-</u> |

Net deferred tax liabilities:

| | 2013 | 2012 |
|---|-------------------|--------------------|
| Deferred tax assets on: | | |
| Accrued expenses | ₱507,765 | ₱1,334,373 |
| Allowance for impairment losses | - | 567,323 |
| Unrealized foreign currency exchange loss | - | 16,926 |
| | <u>507,765</u> | <u>1,918,622</u> |
| Deferred tax liabilities on: | | |
| Accrued income | 9,100,838 | 15,585,059 |
| Unrealized foreign currency exchange gain | 18,623 | - |
| | <u>9,119,461</u> | <u>15,585,059</u> |
| Net deferred tax liabilities | <u>₱8,611,696</u> | <u>₱13,666,437</u> |



The reconciliation between the statutory and effective income tax rates follows:

| | 2013 | 2012 |
|--|--------------|-------------|
| Statutory income tax rate | ₱42,317,940 | ₱16,667,211 |
| Adjustments resulting from: | | |
| Nondeductible expenses | 66,584 | 689,277 |
| Income under ITH | (21,770,528) | — |
| Interest income subjected to final tax | (17,748) | (11,450) |
| Provision for income tax | ₱20,596,248 | ₱17,345,038 |

Registration with the Board of Investments (BOI)

The Parent Company 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 Parent Company. The approved bonus year under Certificate of Registration No. 2005-028 is for the period February 28, 2009 to February 27, 2010. The Parent Company can avail of bonus year but the aggregate ITH availment (basic and bonus years) shall not exceed eight years.

On July 27, 2011 the Parent Company 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 Parent Company's registration, including all the fiscal and non-fiscal incentives available to the registered project as follows:

- 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.
- 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 Parent Company availed of its ITH incentive granted by the BOI amounted to ₱21.77 million and nil in 2013 and 2012, respectively.

15. Equity

Retained Earnings

Appropriations

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

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.



The Parent Company's BOD approved the appropriation of retained earnings for cash and stock dividend declaration of approximately ₱28.15 per share, or the aggregate amount of ₱91.50 million for distribution to its stockholders of record as of December 31, 2013 not later than November 30, 2014.

Dividends declaration

The Parent Company declared and paid cash dividends amounting to ₱32.70 million and ₱39.12 million, respectively, in 2013 and ₱23.89 million and ₱30.98 million, respectively, in 2012.

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 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 28, 2012, Parent Company's the 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 March 12, 2013, the Parent Company's BOD approved the declaration of cash dividend of approximately ₱3.08 per share, or the aggregate amount of ₱10.00 million out of the Parent Company's unrestricted retained earnings as of December 31, 2013.

On May 3, 2013, the Parent Company's BOD approved and authorized the declaration from the unappropriated retained earnings of the Parent Company, a cash dividend of approximately ₱0.83 per share, or the aggregate amount of ₱2.70 million to all stockholders of record as of December 31, 2012 for distribution not later than May 31, 2013.

On July 22, 2013, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱1.03 per share, or the aggregate in the amount of ₱3.33 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as of June 30, 2013 and payable to stockholders on or before July 31, 2013.

On November 18, 2013, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱5.13 per share, or the aggregate amount of ₱16.67 million payable out of its unrestricted retained earnings of the Parent Company as of September 30, 2013 and payable to all stockholders on or before November 29, 2013.

Capital Management

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

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



The Group's sources of capital as of December 31, 2013 and 2012 follow:

| | 2013 | 2012 |
|-------------------|---------------------|--------------------|
| Capital stock | ₱3,250,000 | ₱3,250,000 |
| Retained earnings | 108,924,350 | 28,481,090 |
| | <u>₱112,174,350</u> | <u>₱31,731,090</u> |

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies as of December 31, 2013 and 2012.



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Xurpas, Inc. and Subsidiary
1903 Antel 2000 Corporate Centre 121
Valero Street, Salcedo Village, Makati City

We have audited the consolidated financial statements of Xurpas, Inc. and its subsidiary (the Group) as of and for the year ended December 31, 2013, on which we have rendered the attached report, dated March 21, 2014.

In compliance with Securities Regulation Code Rule 68, we are stating that the Group has three (3) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna

Partner

CPA Certificate No. 36317

SEC Accreditation No. 0069-AR-3 (Group A),

February 14, 2013, valid until February 13, 2016

Tax Identification No. 102-082-365

BIR Accreditation No. 08-001998-10-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225155, January 2, 2014, Makati City

March 21, 2014



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors
Xurpas, Inc. and Subsidiary
1903 Antel 2000 Corporate Centre 121
Valero Street, Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Xurpas, Inc. and Subsidiary (the Group) as at and for the years ended December 31, 2013 and 2012 and have issued our report thereon dated March 21, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of reconciliation of retained earnings available for dividend declaration is the responsibility of the Group's management. This schedule is presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna

Partner

CPA Certificate No. 36317

SEC Accreditation No. 0069-AR-3 (Group A),

February 14, 2013, valid until February 13, 2016

Tax Identification No. 102-082-365

BIR Accreditation No. 08-001998-10-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225155, January 2, 2014, Makati City

March 21, 2014



XURPAS, INC. AND SUBSIDIARY

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2013

| | |
|--|--------------|
| Unappropriated Retained Earnings, beginning | ₱28,481,090 |
| Movements during the year: | |
| Net income actually earned during the year | 113,143,260 |
| Appropriations during the year | (91,500,000) |
| Dividends paid during the year | (32,700,000) |
| | (11,056,740) |
| Unappropriated Retained Earnings, end available for dividend distribution | ₱17,424,350 |

