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## **Xurpas Inc.**

Primary Offer of 344,000,000 Common Shares  
at an Offer Price of ₱3.97 per Offer Share  
to be listed and traded on the Small, Medium and Emerging (SME) Board  
of The Philippine Stock Exchange, Inc.



**SB Capital Investment Corporation**  
*Sole Issue Manager and Sole Bookrunner*



**SB Capital Investment Corporation**  
*Lead Underwriter*



*Co-Lead Underwriters*



*Participating Underwriters*

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

**This Prospectus is dated November 13, 2014.**

## **XURPAS INC.**

7<sup>th</sup> Floor, Cambridge Centre  
108 Tordesillas St.  
Salcedo Village, Makati City 1227  
Tel. No.: (632) 889-6467  
Fax No.: (632) 889-6426  
Website: <http://www.xurpas.com/>

This Prospectus relates to common shares of capital stock of Xurpas Inc. (the “Common Shares”), a corporation organized under Philippine law (“Xurpas”, the “Issuer” or the “Company”), in connection with: (i) the offer and sale of 344,000,000 Common Shares (the “Offer Shares”), which will represent approximately 20% of the outstanding and issued Common Shares of the Company (the “Offer”) and (ii) the listing (the “Listing”) of up to 1,720,000,660 Common Shares, which represent all of the outstanding and issued Common Shares of the Company (including the Offer Shares) on the Small, Medium and Emerging (“SME”) Board of The Philippine Stock Exchange, Inc. (“PSE”).

The Offer Shares will be offered at a price of ₱3.97 per Offer Share (the “Offer Price”). The determination of the Offer Price is further discussed on “Determination of the Offer Price” on page 33 of this Prospectus and is based on a book-building process and discussions between the Company and SB Capital Investment Corporation (“SB Capital”, the “Sole Issue Manager and Sole Bookrunner” or the “Lead Underwriter”). The Offer Shares represent (or will represent) 20% of the outstanding Common Shares after the Offer and will be issued out of the Company’s authorized and unissued capital stock. Prior to the Offer, the Company had a total of 1,376,000,660 issued and outstanding Common Shares. After the Offer, a total of 1,720,000,660 Common Shares will be outstanding.

As of the date of this Prospectus, the Company has an authorized capital stock of ₱500,000,000 divided into 5,000,000,000 Common Shares, with a par value of ₱0.10 each.

The total gross proceeds to be raised by the Company from the sale of the Offer Shares are estimated to be up to ₱1,365.68 million. The net proceeds to be raised by the Company from the sale of the Offer Shares (after deduction of estimated fees and expenses) are estimated to be ₱1,239.37 million. The Company intends to use the net proceeds from the Offer for domestic and regional expansion and acquisitions, as well as for general corporate purposes including working capital requirements. For a more detailed discussion on Company’s proposed use of proceeds, see “Use of Proceeds” on page 31 of this Prospectus.

The Sole Issue Manager and Sole Bookrunner and the Lead Underwriter will receive issue management, underwriting and selling fees from the Company based on a percentage of the gross proceeds from the sale of the Offer Shares. These fees are inclusive of the amounts to be paid to the PSE Trading Participants and to any participating underwriter, where applicable (but exclude the brokerage fee of 1% of the Offer Price payable by investors other than the Trading Participants (in respect of their allocated shares) and the LSIs). For a more detailed discussion on the fees to be received by the Sole Issue Manager and Sole Bookrunner and the Lead Underwriter, see “Plan of Distribution” on page 34 of this Prospectus.

Each holder of the Shares will be entitled to such dividends as may be declared by Company’s Board of Directors (the “Board”), provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of Company’s total outstanding capital stock. The Corporation Code of the Philippines, Batas Pambansa Blg. 68 (the “Corporation Code”), has defined “outstanding capital stock” as the total shares of stock issued, whether paid in full or not, except treasury shares. As of the date of this Prospectus, the Company has adopted through its Manual of Corporate Governance (the “Manual”) a dividend policy pursuant to which stockholders may be entitled to receive, upon declaration by the Company’s Board of Directors and subject to the availability of unrestricted retained earnings, dividends equivalent to at least 30% of the prior year’s

net income after tax based on the Company's audited financial statements as of such year, except when: (i) justified by definite corporate expansion projects or programs approved by the Board; or (ii) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (iii) when it can be clearly shown that retention of earnings is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserves for probable contingencies. See "Dividends and Dividend Policy" on page 37 of this Prospectus.

As of the date of this Prospectus, the Company is not engaged in any nationalized activity and is not subject to any nationality restrictions on foreign capital ownership under Philippine law.

68,894,000 Offer Shares are being offered to all of the trading participants of the PSE (the "PSE Trading Participants"), with 518,000 Offer Shares allocated to each of the 133 PSE Trading Participants. 34,400,000 Offer Shares are being offered to local small investors (the "LSIs") under the Local Small Investors Program. The remaining 240,706,000 Offer Shares (or approximately 70% of the total Offer Shares) shall be distributed by the underwriters to qualified institutional buyers ("QIBs") and to the general public. Offer Shares not taken up by the PSE Trading Participants, the LSIs, the QIBs, and the general public shall be purchased by the Lead Underwriter under a firm commitment pursuant to an underwriting agreement executed by and between the Company and the Lead Underwriter (the "Underwriting Agreement"). In any case, the amount of Offer Shares to be made available to the PSE Trading Participants and LSIs will be equivalent to approximately 20% and 10%, respectively, of the total Offer Shares. For more detailed discussion of the underwriting commitment of the Lead Underwriter, see "Plan of Distribution" on page 34 of the Prospectus.

The Listing of the Offer Shares is subject to the approval of the PSE. An application to list the Company's 1,720,000,660 outstanding Common Shares (including the Offer Shares) was approved on November 12, 2014 by the board of directors of the PSE, subject to fulfillment of certain listing conditions. Such an approval is permissive only and does not constitute a recommendation or endorsement by the PSE of the Offer Shares. The PSE assumes no responsibility for the correctness of any of the statements made or opinions expressed in this Prospectus. The PSE makes no representation as to the completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon the whole or any part of the contents of this Prospectus.

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Offer Shares. These risks include:

- risks related to the Company's business;
- risks related to the Philippines; and
- risks related to the Offer and the Offer Shares.

Please refer to the section entitled "Risk Factors" beginning on page 21 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Offer Shares. In making any investment decision regarding the Offer Shares, prospective investors must rely on their own examination of the Company and the terms of the Offer, including the merits and risks involved.

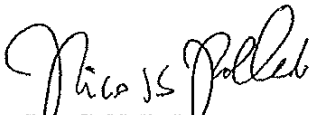
For investor relations matters, please contact Mr. Nico Jose S. Nollado at telephone number (632) 889-6467 or through [nix@xurpas.com](mailto:nix@xurpas.com).


**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.**

The Offer Shares are offered subject to the receipt and acceptance of any order by Company and subject to Company's right to reject any order in whole or in part. It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the Philippine Depository and Trust Corporation (the "PDTC") on or about December 2, 2014.

**XURPAS INC.**

By:

  
**Nico Jose S. Nollado**  
 Chairman, President and CEO


  
**Raymond Gerard S. Racaza**  
 Treasurer and Chief Operating Officer

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

**SUBSCRIBED AND SWORN** to before me this 13th day of November, 2014, at PASIG CITY, affiants exhibiting to the following:

Name	Competent Evidence of Identity	Expiry Date
Nico Jose S. Nollado	Passport No. EB8683342	July 15, 2018
Raymond Gerard S. Racaza	Passport No. EC2509470	October 22, 2019

Doc No. 07;  
 Page No. 12;  
 Book No. V;  
 Series of 2014.

  
**ATTY. JOSHUA JEROME O. SANTIAGO**  
 NOTARY PUBLIC  
 Until December 31, 2014  
 ROLL OF ATTORNEYS NO. 48402  
 PTR NO. 944071-1/08/14  
 IBP NO. 953372 - 1/08/14  
 AICLE Compliance No. IV-0020517 -MANILA

The information contained in this Prospectus relating to Company and its operations has been supplied by the Company, unless otherwise stated herein. The Company, which has taken reasonable care to ensure that such is the case, confirms that the information contained in this Prospectus relating to it and its operations is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Company hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same.

The Sole Issue Manager and Sole Bookrunner and the Lead Underwriter confirm that it has exercised the required due diligence in verifying that all material information in this Prospectus is true and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading. The Sole Issue Manager and Sole Bookrunner, the Lead Underwriter and each of the underwriters assume no liability for any information supplied by the Company in relation to this Prospectus.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company since such date.

Market data and certain industry information used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and neither the Company nor the Lead Underwriter and Sole Issue Manager and Sole Bookrunner makes any representation as to the accuracy and completeness of such information.

## **PRESENTATION OF FINANCIAL INFORMATION**

The Company's consolidated financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("PFRS") issued by the Financial Reporting Standard Council of the Philippines. PFRS include statements named PFRS and Philippine Accounting Standards, and Philippines Interpretations from International Financial Reporting Interpretations Committee.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

The Company's fiscal year begins on January 1 and ends on December 31 of the year. SGV & Co., Company's independent auditor, has audited and rendered unqualified audit reports on the Company's consolidated financial statements as at June 30, 2014 and December 31, 2013, 2012 and 2011 and for the six-month periods ended June 30, 2014 and 2013 and for the years ended December 31, 2013, 2012 and 2011.

## **FORWARD-LOOKING STATEMENTS**

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results; and
- performance or achievements expressed or implied by forward looking statements.

Important factors that could cause some or all of the assumptions not to occur or result in performance or achievements materially different from those in the forward-looking statements include, among other things:

- the Company's ability to successfully implements its strategies;
- competition in the Philippine information and communications technology ("ICT") industry;
- the Company's ability to anticipate and respond to economic and market trends, including changes in the Philippine, Asian or global economies;
- changes in interest rates, inflation rates and foreign exchange rates of the Peso against other currencies; and,
- changes in the laws, rules and regulations, including tax laws and licensing requirements, in the Philippines.

This Prospectus includes statements regarding the Company's expectations and projects for future operating performance and business prospects. Words including, but not limited to "believes", "may", "will", "estimates", "continues", "anticipates", "intends", "expects" and similar words are intended to identify forward-looking statements. In addition, all statements other than statements of historical

facts included in this Prospectus are forward-looking statements. Statements in the Prospectus as to the opinions, beliefs and intentions of the Company accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Prospectus, although the Company gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “Risk Factors” and elsewhere, important factors that could cause actual results to differ materially from the Company’s expectations. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the above cautionary statements.

In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances in this Prospectus might not occur.

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## GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below:

<b>BIR</b>	Bureau of Internal Revenue
<b>Board</b>	The Board of Directors of the Company
<b>Common Shares</b>	Common shares of the Company with a par value of ₱0.10 per share
<b>Company or Xurpas or the Issuer</b>	Xurpas Inc.
<b>Corporation Code</b>	Batas Pambansa Blg. 68
<b>DCOM</b>	Digital Commerce Association
<b>Digitel or Sun Cellular</b>	Digitel Mobile Phils., Inc.
<b>Digital Storm</b>	Digital Storm, Inc.
<b>DST</b>	Documentary stamp tax
<b>EBIT</b>	Earnings before income tax
<b>ICT</b>	Information and communications technology
<b>IMMAP</b>	Internet and Mobile Marketing Association of the Philippines
<b>Independent Auditors</b>	SGV & Co.
<b>Globe Telecom or Globe</b>	Globe Telecom, Inc.
<b>Lead Underwriter</b>	SB Capital
<b>Listing</b>	The listing of 1,720,000,660 Common Shares, representing all of the issued and outstanding capital stock of the Company after the Offer, on the SME Board of the PSE
<b>Listing Date</b>	December 2, 2014
<b>LSI</b>	Local small investor
<b>Manual</b>	The Company's Manual of Corporate Governance dated as of December 7, 2011 which took effect on January 1, 2012.
<b>NTC</b>	National Telecommunications Commission
<b>Offer</b>	The offer and sale of the Offer Shares at the Offer Price in accordance with the terms set forth in this Prospectus
<b>Offer Period</b>	The period from November 17, 2014 until November 25, 2014

<b>Offer Price</b>	₱3.97 per Offer Share
<b>Offer Shares</b>	344,000,000 Common Shares to be offered and sold pursuant to the Offer
<b>Pesos or ₱</b>	Philippine Pesos
<b>PDTC</b>	Philippine Depository and Trust Corporation
<b>PFRS</b>	Philippine Financial Reporting Standards
<b>PLDT</b>	Philippine Long Distance Telephone Company
<b>Prospectus</b>	This Prospectus, dated as of November 13, 2014, including any amendments or supplements thereto.
<b>PTE</b>	Public telecommunications entity
<b>PSE</b>	The Philippine Stock Exchange, Inc.
<b>PSE Listing Rules</b>	The Revised Listing Rules of the PSE, as amended
<b>PSE Trading Participants</b>	Trading participants of the PSE
<b>Public Telecommunications Policy Act</b>	Republic Act No. 7925 including, where the context requires, related implementing regulations issued by the NTC
<b>QIB</b>	Qualified institutional buyers, as such term is defined under the SRC
<b>SB Capital</b>	SB Capital Investment Corporation
<b>SCCP</b>	Securities Clearing Corporation of the Philippines
<b>SEC</b>	Securities and Exchange Commission
<b>SME Board</b>	The Small, Medium and Emerging Board of the PSE
<b>SMS</b>	Short Messaging Services.
<b>Smart Communications or Smart</b>	Smart Communications, Inc.
<b>Sole Issue Manager and Sole Bookrunner</b>	SB Capital
<b>South East Asia</b>	Collectively, Indonesia, Malaysia, Vietnam and Thailand, among others.
<b>SRC</b>	Securities Regulation Code and, where the context requires, its implementing rules and regulations
<b>Telcos</b>	Telecommunications companies
<b>UNCLOS</b>	United Nations Convention on the Law of the Sea

<b>Underwriting Agreement</b>	The Underwriting Agreement dated November 13, 2014 by and between the Company and the Lead Underwriter
<b>VAS License</b>	A license or registration issued by the NTC authorizing the holder to engage in value-added services under the Public Telecommunications Policy Act
<b>VAT</b>	Value-added tax

## EXECUTIVE SUMMARY

*The following summary is qualified in its entirety by, and is subject to, the more detailed information and financial statements including the notes thereto, appearing elsewhere in this Prospectus. Prospective investors are advised to review closely the sections entitled “Risk Factors” for a description of certain factors that may be relevant to the Offer shares. Capitalized Terms not defined in this Executive Summary are defined in the Glossary of Terms.*

### OVERVIEW

The Company is a technology company specializing in the creation and development of digital products and services for mobile end users, as well as the creation, development and management of proprietary platforms for mobile operators. The Company offers a complete portfolio of products, including online casual games, messaging and other social discovery applications, as well as mission-critical applications such as customized call/short messaging service (“SMS”)/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce. The Company is principally owned and managed by the young and dynamic team composed of Messrs. Nico Jose S. Nollado, Raymond Gerard S. Racaza and Fernando Jude F. Garcia, each of whom have accumulated over 15 years of experience in the ICT industry.

The Company was incorporated under the laws of the Republic of the Philippines on November 26, 2001, with the primary purpose of developing, producing, selling, buying or dealing in products, goods or services in connection with the transmission, receiving or exchange of voice, data, video or any form or kind of communication. Originally founded to act as a sub-contractor of Sonera Zed, a division of Sonera, a major telecommunications operator based in Finland, the Company’s initial operations were limited to supplying mobile digital content to Sonera Zed. At the time, Sonera, the parent company of Sonera Zed, had established an exclusive partnership with Smart Communications, Inc. (“Smart Communications”) to develop and provide mobile digital content for Smart Communications’ growing telecommunications network.

The Company has since grown into a technology company with an extensive mobile consumer content and services portfolio designed for mobile and online consumers as well as considerable expertise in creating, developing and managing proprietary platforms and enterprise applications for Telcos and other businesses. At present, the Company is one of the largest independent mobile consumer content provider in the Philippines in terms of revenue, and counts as its clients for its mobile consumer content and services business the three leading Philippine telecommunications companies (“Telcos”): Smart Communications, Globe Telecom, Inc. (“Globe Telecom”) and Digitel Mobile Phils., Inc. (“Sun Cellular”).

The success of the Company’s mobile consumer content and services business, particularly its online casual games, has resulted in a remarkable rate of growth over the past three years, as defined by its (i) exponential revenue growth of 75% average year-on-year from 2011 to 2013, (ii) high margins of 42% average earnings before income tax (“EBIT”) from 2011 to 2013 and (iii) ₱484 million cumulative revenues from 2011 to 2013. For 2014, the Company believes that its online casual games business, which has operating margins in excess of 70%, is on-track to become the Company’s largest line of business.

As of December 31, 2013, the Company had total assets of ₱182 million, while total revenue and net income for the year ended December 31, 2013 were ₱252 million and ₱120 million, respectively. As of June 30, 2014, the Company had total assets of ₱265 million, while total revenue and net income for the six months ended June 30, 2014 were ₱190 million and ₱105 million, respectively.

## **Key Business Activities**

### *Mobile Consumer Products and Services*

One of the Company's primary businesses is the creation and development of mobile consumer content and services for delivery to its client Telcos and distribution to the latter's mobile phone subscribers. The Company provides the Telcos (or allows the Telcos or their mobile phone subscribers access to) mobile consumer content and services such as online casual games, info-on-demand services (e.g., news, social and entertainment information), chat and messaging applications (e.g., mobile stickers), ringtones, licensed or unlicensed content such as music, videos and other content of similar nature. In addition, for its online casual games, such as Grab-a-Gold, GlobeGameswithFriends and PlaySmart, each of which have been tailored for an internet and online consumer base, the Company develops and maintains its own platforms which host and enable mobile subscribers to access or use such products. The provision of these products and services for end-users is performed by the Company's mobile consumer content and services segment.

### *Mobile Enterprise*

The Company develops, on its own or in close collaboration with other technology companies, mobile platform solutions for the benefit of clients such as Philippine Telcos, government agencies including the Land Transportation Office, the Social Security System, and other top tier companies like Robinsons Land Corporation, Nestle Philippines, Inc. and Pepsi-Cola Products Philippines, Inc. These products, which are tailored to a client's particular requirements and are used by millions of mobile subscribers at any given time, comprise the Company's mobile enterprise business and include mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce.

### *Mobile Marketing Solutions*

The Company creates and provides mobile marketing solutions to local and international consumer brands seeking to promote their products through mobile telecommunications. Through its service agreements with prominent brands such as Yahoo, Jollibee, Nestle, Petron, Unilever and Procter & Gamble, the Company develops applications which implement the SMS portions of such brands' mobile telecommunications marketing campaigns, as well as programs which facilitate the interconnection of such applications with the telecommunications networks of its client Telcos.

## **Competitive Strengths**

The Company believes its competitive strengths are the following:

- leading mobile consumer content developer with a strong platform for future growth;
- independently developed intellectual property;
- established technological capacity; and
- experienced management and development team.

## **Corporate Information**

The Company is incorporated as a stock corporation under the laws of the Philippines. Its principal office is located at the 7<sup>th</sup> Floor, Cambridge Centre, 108 Tordesillas St., Salcedo Village, Makati City, Philippines. The Company's telephone number at this location is (632) 889 6467.

The Company's website is <http://www.xurpas.com/>.

## Information Relating to the Common Shares

Authorized capital stock	<b>₱500,000,000*</b>
Common Shares outstanding before the Offer	<b>1,376,000,660</b>
Common Shares outstanding after the Offer	<b>1,720,000,660</b>
Market Capitalization at the Offer Price of ₱3.97 per Offer Share**	<b>₱6,828,402,620</b>

*\*The authorized capital stock of the Company is divided into 5,000,000,000 common shares with par value of Php0.10 each share.*

*\*\*Computed at the Offer Price of ₱3.97 multiplied by the equivalent number of Common Shares outstanding after the Offer. The PSE computes market capitalization based on the number of listed shares multiplied by the market price.*

## SUMMARY OF THE OFFER

Issuer .....	Xurpas Inc.
Sole Issue Manager, Lead Underwriter and Sole Bookrunner .....	SB Capital Investment Corporation
The Offer.....	<p>Offer of 344,000,000 Common Shares, all of which comprising new Common Shares to be issued and offered by the Company. 68,894,000 Offer Shares are being offered and sold at the Offer Price to all of the PSE Trading Participants and 34,400,000 Offer Shares are being allocated to LSIs as part of the Local Small Investors Program. Offer Shares not taken up by the PSE Trading Participants and by the LSIs will be purchased by the Lead Underwriter and sold to QIBs, their clients or the general public prior to the close of the Offer under a firm commitment pursuant to the underwriting agreement executed by and between the Company and the Lead Underwriter (the “Underwriting Agreement”).</p> <p>The Company has likewise authorized the Lead Underwriter to organize such syndicate of participating underwriters as it may deem necessary or convenient, under such terms and conditions not inconsistent with the Underwriting Agreement.</p>
Offer Price.....	₱3.97 per Offer Share.
Brokerage Fees.....	Investors, except PSE Trading Participants (in respect of their allocated shares) and LSIs, will be required to pay, in addition to the aggregate Offer Price due, a brokerage fee equivalent to one percent (1%) thereof.
Use of Proceeds.....	A portion of the gross proceeds from the sale of the Offer Shares are intended to be used to pay applicable underwriting discounts and commissions and expenses of the Offer payable by the Company (including initial public offering and other taxes). The Company intends to use the net proceeds from the Offer for domestic and regional expansion and acquisitions, as well as for general corporate purposes including working capital requirements. For a more detailed discussion on the Company’s proposed use of proceeds, see “Use of Proceeds” on page 31 of this Prospectus.
Minimum Subscription .....	Each application must be for a minimum of 1,000 Offer Shares, and, thereafter, in multiples of 1,000 Offer Shares. Applications for multiples of any number of Offer Shares may be rejected or adjusted to conform to the required multiple, at the Company’s discretion.
Lock-up.....	The Revised Listing Rules of the PSE, as amended (the “PSE Listing Rules”) require an applicant company to cause its existing shareholders not to sell, assign or in any manner dispose of their shares for a period of one year after the listing of the shares. In addition, under the PSE Listing Rules, if there is any issuance or transfer of shares ( <i>i.e.</i> , private placements,

asset for shares swap or a similar transaction) or instruments which lead to issuance of shares (*i.e.*, convertible bonds, warrants or a similar instrument) done and fully paid for within six months prior to the start of the offering period, and the transaction price is lower than that of the listing price, all shares availed of shall be subject to a lock-up period of at least one year from the listing of the aforesaid shares.

To implement this lock-up requirement, the PSE requires, among others, to lodge the shares with the PDTC through a participant of the PDTC system for the electronic lock-up of the shares or to enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution.

The Company and all of its shareholders prior to the Offer are subject to this lock-up requirement, and, for this purpose, have entered into an escrow agreement with Security Bank Corporation – Trust Division as the escrow agent thereunder. See “Plan of Distribution” on page 34 of this Prospectus for further details.

Listing and Trading..... The Offer Shares are expected to be listed on the PSE under the symbol “X”. The Company’s application for listing has been approved by the PSE for the Listing of the Offer Shares being issued and sold by the Company pursuant to the Offer on the PSE. See “Description of the Common Shares” on page 78 of this Prospectus. All of the Company’s outstanding and issued shares, including the Offer Shares issued pursuant to the Offer are expected to be listed on the PSE, on December 2, 2014. Trading is expected to commence on the same date.

Dividends..... The Company is authorized to declare dividends. A cash dividend declaration does not require any further approval from shareholders. A stock dividend declaration requires the further approval of shareholders representing not less than two-thirds of the Company’s outstanding capital stock. Dividends may be declared only from unrestricted retained earnings.

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



The Company cannot provide assurance that it will pay any dividends in the future. In making a decision to declare dividends, the Board may consider various factors including the Company's cash, gearing, return on equity and retained earnings, the results of its operations or the Company's financial condition at the end of the year and such other factors as the Board may deem appropriate. The Company's Board may, at any time, modify such dividend payout ratio depending upon the results of operations and future projects and plans of the Company. See "Dividends and Dividend Policy" on page 37 of this Prospectus.

Eligible Investor .....	The Offer Shares may be subscribed to or held by any person of legal age or duly organized and existing corporations, partnerships or other juridical entities regardless of nationality, subject to the restrictions by law.
Refunds for the Offer .....	In the event that the number of Offer Shares to be received by an applicant, as confirmed by the Sole Issue Manager and Lead Underwriter, is less than the number covered by an application to subscribe to and purchase the Offer Shares ("Application") then the Sole Issue Manager and Lead Underwriter shall refund, without interest, through a check payable to the applicant (or in case of joint applicants to the first named applicant) and crossed "Payee's Account Only", within five banking days from the end of the Offer Period, all, or a portion of the payment corresponding to the number of Offer Shares wholly or partially rejected. All refunds shall be made through the receiving agent.
Registration and Lodgment of Shares with PDTC.....	The Offer Shares are required to be lodged with the PDTC. The applicant must provide the information required for the PDTC lodgment of the Offer Shares. The Offer Shares will be lodged with the PDTC at least two trading days prior to the Listing Date. The applicant may request to receive share certificates evidencing such applicant's investment in the Offer Shares through his/her broker after the Listing Date. Any expense to be incurred by such issuance of certificates shall be borne by the applicant.
Registration of Foreign Investments..	The Bangko Sentral ng Pilipinas ("BSP") requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the domestic banking system. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of each foreign investor.
Application and Acceptance .....	Applications and signature cards may be obtained from any of the underwriters or PSE Trading Participants. A duly and fully accomplished Application in four copies together with two duly executed signature cards, the appropriate check payment, and required documents must be received by the underwriters or PSE Trading Participants during the Offer Period.

The Company, by itself or through the Sole Issue Manager and Lead Underwriter, reserves the right to reject any Application or scale down or re-allocate any of the Offer Shares applied for. An Application, once expressly accepted by the Company, through the underwriters, shall constitute a purchase agreement between the Company and the applicant for the subscription to/purchase of the Offer Shares in the number approved by the Company at the time, in the manner, and subject to (a) the conditions set forth herein; (b) the Company's receipt of the appropriate funds from the Applicant; and (c) the successful listing of the Offer Shares on the PSE.

Payment Terms of the Offer ..... The Offer Shares must be paid for in full upon submission of the Application. Payment must be made by a check drawn against a bank in Metro Manila to the order of "Xurpas Inc. IPO". The check must be dated as of the date of submission of the Application and crossed "Payee's Account Only".

Foreign Ownership Restriction ..... As of the date of this Prospectus, the Company is not engaged in any nationalized activity and is not subject to any nationality restrictions on foreign capital ownership under Philippine laws.

Tax Considerations ..... See "Philippine Taxation" on page 88 of this Prospectus for further information on the tax consequences of the purchase, ownership and disposition of the Offer Shares.

Expected Timetable ..... The timetable of the Offer is expected to be as follows:  
(dates provided below are dates in the Philippines)

- Price Setting ..... November 12, 2014
- Underwriters' and PSE Trading Participants' Offer Period ..... November 17-25, 2014
- PSE Trading Participants' Commitment Period ..... November 17-20, 2014
- Deadline for PSE Trading Participants to Submit Firm Orders and Commitments ..... November 20, 2014
- Local Small Investor Offer Period ..... November 17-21, 2014
- Payment Date for Local Small Investor ..... November 21, 2014
- Payment Date for PSE Trading Participants ..... November 25, 2014
- Listing Date and commencement of trading on the PSE ..... December 2, 2014

The dates included above are subject to the approval of the PSE and the SEC, market and other conditions, and may be changed.

Risks of Investing ..... Before making a commercial decision, prospective investors should carefully consider the risks connected with an investment in the Offer Shares, certain of which are discussed in the section titled "Risk Factors" on page 21 of this Prospectus.

## SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set forth selected financial information for the Company and should be read in conjunction with the Company's consolidated financial statements audited by the independent auditors as at June 30, 2014 and for the six-month periods ended June 30, 2014 and 2013 and as at and for the years ended December 31, 2013, 2012 and 2011, including the notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

### Consolidated Statements of Comprehensive Income

In PhP '000	For the years ended December 31			For the six-month period ended June 30	
	2011 (audited)	2012 (audited)	2013 (audited)	2013 (audited)	2014 (audited)
<b>Revenues</b>					
Service income	95,307.08	136,042.44	251,814.24	95,143.85	189,338.70
Interest income	77.49	111.93	174.99	72.70	213.60
Other income	-	0.30	67.22	58.62	72.78
	<b>95,384.57</b>	<b>136,154.67</b>	<b>252,056.45</b>	<b>95,275.17</b>	<b>189,625.08</b>
<b>Cost and Expenses</b>					
Cost of services	57,368.37	63,804.19	89,361.55	35,471.66	62,982.60
General and administrative expenses	10,169.41	16,793.11	21,635.10	8,172.30	8,285.31
	<b>67,537.78</b>	<b>80,597.30</b>	<b>110,996.65</b>	<b>43,643.96</b>	<b>71,267.91</b>
<b>Income Before Income Tax</b>	<b>27,846.79</b>	<b>55,557.37</b>	<b>141,059.80</b>	<b>51,631.21</b>	<b>118,357.17</b>
Provision for income tax	7,682.84	17,345.04	20,596.25	7,301.35	13,521.87
<b>Net Income</b>	<b>20,163.95</b>	<b>38,212.33</b>	<b>120,463.55</b>	<b>44,329.86</b>	<b>104,835.30</b>
<b>Other Comprehensive Income (Loss)</b>					
Item that will not be reclassified to profit or loss in subsequent periods					
Unrealized gain (loss) on available for sale financial assets	10.00	20.00	(10.00)	-	10.00
<b>Total Comprehensive Income</b>	<b>20,173.95</b>	<b>38,232.33</b>	<b>120,453.55</b>	<b>44,329.86</b>	<b>104,845.30</b>
<b>Net income attributable to:</b>					
Equity holders of Xurpas Inc.	17,967.93	30,414.97	113,143.26	42,939.32	99,830.03
Non-controlling interests	2,196.02	7,797.36	7,320.29	1,390.54	5,005.27
	<b>20,163.95</b>	<b>38,212.33</b>	<b>120,463.55</b>	<b>44,329.86</b>	<b>104,835.30</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of Xurpas Inc.	17,977.93	30,434.97	113,133.26	42,939.32	99,840.03
Non-controlling interests	2,196.02	7,797.36	7,320.29	1,390.54	5,005.27
	<b>20,173.95</b>	<b>38,232.33</b>	<b>120,453.55</b>	<b>44,329.86</b>	<b>104,845.30</b>

### Consolidated Statements of Financial Position

In PhP '000	December 31			June 30
	2011 (audited)	2012 (audited)	2013 (audited)	2014 (audited)
<b>Current Assets</b>				
Cash	12,107.90	20,779.93	86,502.68	138,445.49
Receivables	38,023.41	53,021.03	83,431.45	109,917.62
Other current assets	3,229.66	1,306.22	2,314.39	5,201.28
Total Current Assets	53,360.97	75,107.18	172,248.52	253,564.39
<b>Non-Current Assets</b>				
Available-for-sale financial assets	210.00	230.00	3,822.12	3,832.12
Property and equipment	1,520.86	3,104.61	4,261.00	4,067.16
Deferred tax assets - net	-	-	1,693.54	2,052.95
Other noncurrent assets	283.18	516.00	120.37	1,348.63

Total Non-Current Assets	2,014.04	3,850.61	9,897.03	11,300.86
<b>Total Assets</b>	<b>55,375.01</b>	<b>78,957.79</b>	<b>182,145.55</b>	<b>264,865.25</b>
<b>Current Liabilities</b>				
Accounts and other payables	13,058.07	22,064.19	38,440.44	47,021.80
Income tax payable	89.49	2,887.61	13,416.97	2,947.35
Dividends payable	7,095.19	-	-	-
Total Current Liabilities	20,242.75	24,951.80	51,857.41	49,969.15
<b>Noncurrent Liabilities</b>				
Deferred tax liabilities - net	5,499.31	13,666.44	8,611.70	13,818.81
<b>Total Liabilities</b>	<b>25,742.06</b>	<b>38,618.24</b>	<b>60,469.11</b>	<b>63,787.96</b>
<b>Equity</b>				
Equity attributable to equity holders of Xurpas Inc.				
Capital stock	3,250.00	3,250.00	3,250.00	71,250.00
Retained earnings	21,955.73	28,481.09	108,924.35	117,254.38
Unrealized loss on available-for-sale financial assets	(240.00)	(220.00)	(230.00)	(220.00)
	<b>24,965.73</b>	<b>31,511.09</b>	<b>111,944.35</b>	<b>188,284.38</b>
Non-controlling interests	4,667.22	8,828.46	9,732.09	12,792.91
<b>Total Equity</b>	<b>29,632.95</b>	<b>40,339.55</b>	<b>121,676.44</b>	<b>201,077.29</b>
	<b>55,375.01</b>	<b>78,957.79</b>	<b>182,145.55</b>	<b>264,865.25</b>

## Consolidated Statements of Cash Flows

In PhP '000	For the years ended December 31			For the six month period ended	
	2011 (audited)	2012 (audited)	2013 (audited)	2013 (audited)	2014 (audited)
Net cash provided by operating activities <sup>1</sup>	15,264.54	39,306.77	111,392.82	42,954.36	79,467.07
Net cash used in investing activities	(932.12)	(3,109.02)	(6,553.41)	(2,696.45)	(2,079.80)
Net cash used in financing activities	(9,388.36)	(27,525.72)	(39,116.67)	(15,616.67)	(25,444.44)

<sup>1</sup> Net of effect of foreign currency exchange rate changes on cash

## Key Performance Indicators and Ratios

The following are the key performance indicators of the Company and its majority-owned subsidiary:

	For the years ended December 31			For the six month period ended	
	2011	2012	2013	2013	2014
Net income margin <sup>1</sup>	18.85%	22.36%	44.93%	45.13%	52.73%
Gross margin <sup>2</sup>	39.81%	53.10%	64.51%	62.72%	66.74%
Operating margin <sup>3</sup>	30.41%	41.79%	56.89%	55.43%	63.09%
Return on total assets <sup>4</sup>	39.86%	45.28%	86.67%	41.42%	54.18%
Return on equity <sup>5</sup>	110.94%	107.71%	157.74%	69.54%	79.85%

<sup>1</sup> Net income margin computed as net income attributable to the equity holders of Xurpas Inc. over total service income.

<sup>2</sup> Gross margin computed as gross income (service income less cost of services) over total service income.

<sup>3</sup> Operating margin computed as earnings before interest, taxes, depreciation and amortization over total service income.

<sup>4</sup> Return on total assets computed as net income attributable to the equity holders of Xurpas Inc. over average total assets.

<sup>5</sup> Return on equity computed as net income attributable to the equity holders of Xurpas Inc. over average equity attributable to the equity holders of Xurpas Inc.

## Revenue and Net Income Contribution per Product Segment

The tables below show the revenue and net income contribution of the Company's two significant product segments, the mobile consumer products and services segment and the mobile enterprise segment, for the six months ended June 30, 2014 and 2013 and for the years ended December 31, 2013, 2012 and 2011, respectively.

### Revenue contribution per Product Segment

	2011		For the years ended December 31 2012		2013		For the six months ended June 30 2013		For the six months ended June 30 2014	
	Amount (in ₱ Mn)	% Share to Total Revenues	Amount (in ₱ Mn)	% Share to Total Revenues	Amount (in ₱ Mn)	% Share to Total Revenues	Amount (in ₱ Mn)	% Share to Total Revenues	Amount (in ₱ Mn)	% Share to Total Revenues
Mobile consumer products and services	68.52	72%	77.92	57%	190.01	75%	75.74	80%	155.18	82%
Mobile enterprise	26.79	28%	58.13	43%	61.80	25%	19.41	20%	34.16	18%
Total	95.31	100%	136.05	100%	251.81	100%	95.15	100%	189.34	100%

### Net income contribution per Product Segment

	2011		For the years ended December 31 2012		2013		For the six months ended June 30 2013		For the six months ended June 30 2014	
	Amount (in ₱ Mn)	% Share to Net Income	Amount (in ₱ Mn)	% Share to Net Income	Amount (in ₱ Mn)	% Share to Net Income	Amount (in ₱ Mn)	% Share to Net Income	Amount (in ₱ Mn)	% Share to Net Income
Mobile consumer products and services	13.89	69%	15.93	42%	99.54	83%	40.36	91%	90.54	86%
Mobile enterprise	6.27	31%	22.28	58%	20.92	17%	3.97	9%	14.30	14%
Total	20.16	100%	38.21	100%	120.46	100%	44.33	100%	104.84	100%

*Note: Share of mobile consumer products and services segment to total consolidated net income of the Company for the six-month periods ended June 30, 2014 and 2013 and for the years ended December 31, 2013, 2012 and 2011 is net of intersegment adjustments*

## **RISK FACTORS**

*An investment in the Common Shares involves a number of risks. Investors should carefully consider the risks described below, in addition to other information contained in this Prospectus (including the Company's consolidated financial statements and notes relating thereto which are included herein), whenever making any investment decision relating to the Common Shares. The Company's past performance is not an indication of its future performance. Investors deal in a range of investments, each of which may carry a different level of risk. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company or that are currently considered immaterial could have a material adverse effect on the Company's business, results of operations, financial condition and prospects, and cause the market price of the Common Shares to fall significantly and investors may lose all or part of their investment.*

*Investors deal in a range of investments each of which may carry a different level of risk.*

*This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. See "Forward-Looking Statements" on page 5 of this Prospectus. Factors that might cause such differences, thereby making any investment in the Common Shares speculative or risky, may be summarized into those that pertain to the business and operations of the Company, in particular, and those that pertain to the over-all political, economic and business environment in general. These risk factors and the manner by which these risks may be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.*

### **PRUDENCE REQUIRED**

*This section does not purport to disclose all the risks and other significant aspects of an investment in the Common Shares. Investors should undertake independent research regarding the Company and the trading of securities before commencing any trading activity, and any investor may request all publicly available information regarding the Company and the Common Shares from the SEC and the PSE.*

### **PROFESSIONAL ADVICE**

*An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to be invested in or the nature of risks involved in holding and trading of such securities, especially in the trading of high-risk securities. Each investor should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Common Shares.*

### **RISKS RELATING TO COMPANY'S BUSINESS**

#### **Short term contracts with Telcos**

The Company derives a significant portion of its revenues from its share of the fees paid by mobile phone subscribers of its client Telcos to access, subscribe to or to use mobile consumer content and services created or developed by the Company pursuant to its content provider agreements with such Telcos. In general, under such content provider agreements, the Company provides mobile consumer content and services, in the form of electronic games, messaging applications or info-on-demand services, to its client Telcos which, in turn, make such content and services available to their respective mobile phone subscribers for access, subscription or use, upon payment by such subscribers of access, subscription or usage fees set by the Telcos. These fees are paid to the Telcos by a mobile phone subscriber through virtual currency in the form of the subscriber's outstanding mobile airtime usage credits, and payment of the prescribed fees is made by a subscriber crediting

with the corresponding amount of airtime credits a specific network access code (more commonly known as a “short code”) identified by the Telco and assigned to the Company for such purpose.

In consideration for developing mobile consumer content and services and for making these available to the Telcos (and, indirectly, to their mobile subscribers), the Telcos grant the Company a share in the revenues derived from the fees paid by their mobile subscribers to access, subscribe to or use such mobile consumer content. The percentage of the Company’s share in such revenues, as well as other terms of these revenue-sharing arrangements with the Telcos, are governed by and provided for in the content provider agreements.

Total revenues derived by the Company through its content provider agreements with the Telcos for the years ended December 31, 2013, 2012 and 2011 were ₱183 million, ₱69 million and ₱64 million, respectively, representing 73%, 51% and 68% of its total revenues for the same period. Net income derived by the Company through such agreements for the years ended December 31, 2013, 2012 and 2011 were PhP99 million, PhP16 million and PhP14 million, respectively, representing 83%, 42% and 69% of its total net income for the same period. In particular, total revenues derived by the Company through its content provider agreement with Globe Telecom, its largest customer, for the years ended December 31, 2013, 2012 and 2011 were ₱178 million, ₱65 million and ₱60 million, respectively.

The Company’s existing content provider agreements with its client Telcos are generally short-term in nature, with terms ranging from one to five years. In each case, there is no guarantee that such agreements will be renewed upon expiration thereof by the relevant Telcos, or that any renewal will be on the same or similar terms as those currently enjoyed by the Company. If any of these agreements are not renewed or are renewed on terms unfavorable to the Company, the ability of the Company to sell and distribute its mobile consumer content may be adversely affected and this may have a material adverse effect on the Company’s business, financial condition and results of operations.

Historically, the Company’s content provider agreements with its client Telcos have been consistently renewed on similar (if not on better) terms enjoyed by the Company. In particular, its content provider agreements with Smart Communications, Globe Telecom and Sun Cellular, have terms expiring on January 2015, September 2018 and December 2014, respectively. As such, the Company believes that such content provider agreements with its client Telcos are mutually beneficial to each party, and the risk of non-renewal of any such agreement is low. Nevertheless, to mitigate reliance on its existing content provider agreements with such Telcos, the Company intends to expand its mobile operator client base to Telcos or other mobile operators outside the Philippines and within the South East Asia Region and to develop and grow its mobile enterprise business in order to increase its contribution to the Company’s revenue, to offset any potential loss of revenue arising from the non-renewal of its existing content provider agreements.

### **Reliance on third party transmission and distribution infrastructure**

As a mobile telecommunications value added services provider, the Company relies on the transmission, switching and local distribution facilities of Telcos to which it provides mobile digital content and services, such as Globe Telecom, Smart Communications or Sun Cellular. These Telcos own, operate and maintain these transmission, switching and local distribution facilities and the Company itself does not have any right to participate or intervene in the operation or maintenance thereof.

The ability of the Company to market, distribute and sell its digital goods and services are dependent on the reliability of its client Telcos’ transmission, switching and distribution systems and the infrastructure needed to run them. For instance, the Company, in the ordinary course of business, routinely receives complaints from mobile subscribers who claim that they had been charged multiple times for using the Company’s mobile consumer content and services. However, as is often the case, these complaints are promptly resolved after the Company has established, to such subscribers’

satisfaction, that no multiple charging had occurred and the perception that such subscribers had been charged more than once arose simply because these subscribers had received the SMS payment or charging confirmation multiple times which, in turn, had been caused by network congestion outside of the Company's control.

Any breakdown or failure in the system or facilities owned or operated by the PTEs could disrupt the Company's business, reduce its profitability and adversely affect its results of operations and financial condition.

### **Implementation of growth strategy**

Implementing the Company's growth strategy may involve: (i) substantial investments in new digital products and services; (ii) acquisitions relating to existing electronic content developers; and (iii) entering into strategic alliances and partnerships with players within and without the Philippines. The Company's success in implementing its strategy will depend on, among other things, its ability to identify and assess investment and acquisition opportunities as well as potential partners, its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production, development and distribution of its digital products and services, its ability to manage and control costs and maintain sufficient operational, financial and internal controls, the strength of the Philippine economy and economies within the South East Asia region (including overall growth and income levels) and the overall levels of business activity in the Philippines and within the South East Asia region. The Company's future growth may be adversely affected if it is unable to make these investments or to pursue these acquisitions, or if these investments and acquisitions prove unsuccessful.

The Company is in discussions with potential partners for the expansion of the distribution of its digital products and services outside the Philippines. The Company is also contemplating several additional potential investments and acquisitions, but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, the Company may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects may be materially and adversely affected.

The Company's growth strategy will also place significant demands on the Company's management, financial and other resources. In particular, continued expansion of electronic product and service distribution to markets outside the Philippines will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving its internal administrative infrastructure. Any inability to meet these changes could disrupt the Company's business, reduce its profitability and adversely affect its results of operations and financial condition.

### **Potential competition from client Telcos**

The Company competes with over 100 mobile consumer content providers including companies such as Information Gateway, Inc. and Chikka Philippines, Inc., affiliated with Globe Telecom and Smart Communications, respectively, two of the Company's major client Telcos. Given the relationship between the foregoing competitors, on the one hand, and their affiliated Telcos, on the other, there can be no assurance that the Company's client Telcos may decide to procure mobile content and services to their affiliated content providers instead of the Company. In such an event, the Company's business, financial condition and results of operations may be adversely affected.

To mitigate this risk, the Company intends to expand its mobile operator client base to Telcos or other mobile operators outside the Philippines and within the South East Asia Region and to continue to develop and grow its product and services portfolio in order to be able to offer more varied mobile content and services than its competitors.



### **Reliance on senior management and retention of qualified and competent personnel**

The Company's directors and members of its senior management have been an integral part of its success, and the experience, knowledge, business relationships and expertise that would be lost should any such persons depart could be difficult to replace and may result in a decrease in the Company's operating efficiency and financial performance. While the Company has provided its Directors and key senior management with generous compensation, a highly skilled and reputable executive is always subject to piracy by competitors. Additionally, key personnel could also be lost due to catastrophic diseases (i.e., cerebral stroke, cancer, heart attacks), incapacitated by an accidents and death.

In addition, the Company believes that its employees are its most valuable asset and an engaged workforce is a key element in the development, innovation, production and delivery of its products and services. As most of the Company's products and services are developed in-house, its employees contribute to a significant extent in realizing the Company's strategic and business goals.

There is significant demand, both within and without the Philippines, for its experienced software and content developers and for its technical and operational managers, most of whom have accumulated over 15 years of training and experience in the ICT industry. Any loss of such personnel, and the Company's inability to hire replacement personnel, would adversely affect the Company's ability to create, develop and produce its products and services. Loss of trained personnel would also result in additional expenses in hiring and training replacement personnel, and decreased productivity, as it may take time for these new personnel to reach the required levels of technical skill and expertise. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

To lessen the potential negative impact of these events, the Company has institutionalized critical operational systems and procedures as a way of minimizing over-dependence on individuals. The Company also has established organizational development policies and procedures to ensure the continuous development of its officers and staff. Performances are regularly monitored and appraised, and appropriate and timely action is taken to reward or correct the performances of its officers and staff. The Company likewise maintains an in-house (or, where convenient, avails of third party) training programs to provide its employees continuing technical education and an informal apprenticeship agenda to provide a constant pool of executive-calibre personnel ready for promotion.

### **Ability to adapt to new technologies**

The ICT industry continues to develop at a robust pace and existing technologies, products and services are consistently updated, enhanced or developed, more often than not resulting in prior technologies becoming obsolete or impractical. As such, it is necessary that the Company is able to adapt to any new technological advances, if not remain ahead or at least abreast therewith, to be able to sustain its business viability.

Any inability of the Company to adapt or to keep at par with the latest developments or with emerging technologies in the ICT industry could impair its ability to develop new digital products and services, and may adversely affect the Company's profitability, results of operations and financial condition.

To mitigate this risk, the Company is currently pursuing the diversification of both its products and client base and regularly conducts market and industry research to keep abreast with recent trends and developments in the ICT industry.

## Increased regulation

The Company's mobile consumer content business is subject to Government regulation. Under Republic Act No. 7925 (the "Public Telecommunications Policy Act") and related implementing regulations issued by the National Telecommunications Commission ("NTC"), the provision of mobile consumer content and services to public telecommunications entities such as the Company's client Telcos is considered as a "value-added service" subject to prior registration with, and licensing by, the NTC. Accordingly, the Company holds and maintains a license and registration to act as a value-added services provider (a "VAS License") and the Company is required to comply with service performance and other standards prescribed by the NTC for the purpose.

Regulation of the telecommunications industry as a whole continues to develop to match advances in the industry and the increasing demands of the mobile phone consumer welfare and protection. For instance, as of 2005, public telecommunications entities (*e.g.*, local exchange operators, inter-exchange carriers or other entities providing telecommunications services, a "PTE") and value-added services providers were permitted under then-existing regulations to broadcast "push messages" consisting of commercial and promotional advertisements for the products and services by PTEs and value-added services providers to mobile phone subscribers who shall have previously consented or "opted-in" to receive such types of messages. However, in 2009, in response to concerns raised by mobile consumers, the NTC issued revised regulations prohibiting the broadcasting of any form of unsolicited content, including commercial and promotional advertisements by value-added services providers, to mobile phone subscribers even if such subscribers had previously "opted-in" to receive such content. In issuing these regulations, the NTC required value-added services providers to first obtain the mobile phone subscriber's express consent by directly corresponding with such subscribers (through written communication, messaging through short messaging service or "SMS", internet or other means of communication). In addition, the NTC imposed additional record-keeping obligations on the part of PTEs and value-added services providers in relation to transactions involving "push messages".

There can be no assurance that the Company will be able to remain in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to mobile phone consumer welfare and protection. Likewise, there can be no assurance that the adoption by the NTC of new rules and regulations, new interpretations of existing laws, increased governmental enforcement of such laws, rules and regulations, or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to comply with such developments. Finally, owing to the contractual arrangements between the Company and its client Telcos, increased or increasing regulation on PTEs including its client Telcos may indirectly affect the Company's ability to provide, or the Telcos ability to accept, mobile consumer content for distribution to the Telcos' mobile phone subscribers.

If the Company fails to comply with all applicable regulations or if the regulations governing its electronic consumer goods and services business – from which a significant portion of its revenues are derived – or if their implementation changes, the Company may incur increased costs or be subject to penalties which could disrupt its operations and have a material adverse effect on its business and results of operations.

To mitigate these risks, the Company has established internal regulatory compliance monitoring policies and programs to ensure that its products and services, and the conduct of its mobile consumer content and value-added services business, are in keeping with standards and regulations prescribed by the NTC. The Company's legal team likewise monitors and periodically advises the Company on recent or emerging trends and developments in the regulation of its business.

## **Infringement of the Company's intellectual properties**

Infringement of the Company's intellectual property rights over its platforms, games, mobile enterprise solutions, such as Grab-a-Gold, PlaySmart and GlobeGameswithFriends, and various brand names and marks which are used for its operations, including the names Xurpas and Crazywireless, would have a material adverse effect on the Company's business. There can be no assurance that the actions the Company has taken (or will take) will be adequate to prevent third parties from using these intellectual property rights, names, brands and logos or from naming their products using the same.

The Company, through its corporate communications team maintains a clear, accurate brand and company image and perception in the market to mitigate this risk. The Company's legal team also monitors all intellectual ownership issues of the Company.

## **RISKS RELATING TO THE PHILIPPINES**

### **Political instability or acts of terrorism or communist insurgency**

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against former Presidents of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, there is no guarantee that acts of election-related violence will not occur in the future and such events could negatively affect the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Philippines has also been subject to a number of terrorist and communist insurgency attacks, and the Philippine armed forces have been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. More recently, in September 2013, a faction of the Moro National Liberation Front allegedly led by Nur Misuari, former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tensions between the Philippine armed forces and the Moro National Liberation Front in the southern part of the country. Political instability, acts of terrorism, violent crime and similar events could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### **Territorial disputes with China and a number of Southeast Asian countries**

The Philippines, China and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused one another of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal during the late spring and summer of 2012. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute.

under UNCLOS. China has rejected and returned the notice sent by the Philippines requesting arbitral proceedings.

Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and the Company's operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. China may also seek to suspend visits by Chinese citizens to the Philippines, or Chinese citizens may choose not to visit the Philippines as a result of these disputes.

In early March 2013, several hundred armed Filipino-Muslim followers of Sultan Jamalul Kiram III, the self-proclaimed Sultan of Sulu from the south of the Philippines, illegally entered Lahad Datu, Sabah, Malaysia in a bid to enforce the Sultan of Sulu's historical claim on the territory. As a result of the illegal entry, these followers engaged in a three-week standoff with the Malaysian armed forces, resulting in casualties on both sides. Since then, the Malaysian Government has mounted a military operation to secure Lahad Datu, and Malaysian authorities continue to search for members of the Sultan of Sulu's army, which are suspected to be hiding in certain villages. Clashes which began on March 1, 2013 have killed 98 Filipino-Muslims, and 10 Malaysian policemen. About 4,000 Filipino-Muslims working in Sabah have returned to the southern Philippines. Recent reports in the press quoted the Malaysian Defense Minister as stating that at least 35 armed men were shot dead by the AFP while trying to enter Sabah, which has not been confirmed by the AFP.

Any such impact from these disputes could materially and adversely affect the Company's business, financial condition and results of operations.

### **Corporate governance and disclosure standards**

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in certain other countries. SEC and PSE requirements with respect to corporate governance standards may also be less stringent than those applicable in certain other jurisdictions. For example, the SEC requires publicly listed companies to have at least two independent directors or such number of independent directors as is equal to 20% of the total membership of the board of directors, whichever is lower, but in no case less than two. The Company currently has two independent directors. Many other countries require significantly more independent directors. Further, rules against self-dealing and those protecting minority shareholders may be less stringent or developed in the Philippines. Such potentially lower standards in certain areas of disclosure and corporate governance may materially and adversely affect the interests of the Company's shareholders, particularly those of minority shareholders.

### **Philippine credit rating**

Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by both Standard & Poor's and Fitch Ratings to the investment-grade rating of BBB and the foreign currency and local currency sovereign has been upgraded by Moody's to a rating of Baa3, no assurance can be given that Standard & Poor's, Fitch Ratings or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

### **Occurrence of natural catastrophes**

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the Company's business operations. In particular, damage caused by natural catastrophes may materially disrupt the business operations of the Company's customers, which may, in turn, materially and adversely affect the Company's business, financial condition or results of operations. There can

be no assurance that the Company is fully capable to deal with these situations and that the insurance coverage they maintain will fully compensate them for all the damages and economic losses resulting from these catastrophes.

## **RISKS ASSOCIATED WITH THE OFFER AND THE COMMON SHARES**

### **Market price fluctuation of the Common Shares**

The market prices of securities can and do fluctuate, and it is impossible to predict whether the price of the Common Shares will rise or fall. Securities may experience upward or downward movements, and may even lose all value. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There may be a substantial difference between the buying price and the selling price of such securities. Trading prices of the Common Shares will be influenced by, among other things:

- variations in the Company's operating results;
- success or failure of the Company's management team in implementing business and growth strategies;
- gain or loss of an important business relationship;
- changes in securities analysts' recommendation, perceptions or estimates of the Company's financial performance;
- changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;
- differences between the Company's actual financial operating results and those expected by investors and analysts;
- additions or departures of key personnel;
- changes in general market conditions and broad market fluctuations; and
- involvement in litigation.

These fluctuations may be exaggerated if the trading volume of the Common Shares is low.

### **There may be no liquidity in the market for the Offer Shares and the price of the Offer Shares may fall**

Prior to the listing of the Common Shares at the PSE, there has been no public market for the Common Shares in the Philippines. Subsequent to the Listing, there exists the possibility that the price of the Offer Shares may fall below the Offer Price. There can be no assurance that even after the Common Shares have been approved for listing on the PSE, an active trading market for the Common Shares will develop or be sustained after the Listing, or that the Offer Price will correspond to the price at which the Common Shares will trade in the Philippine public market subsequent to the Listing. There is no assurance that investors may sell the Common Shares at prices or at times deemed appropriate.

### **Future sales of Common Shares in the public market**

In order to finance the Company's business and operations, and any expansion thereof, the Board will consider funding options available to the Company, which may include the issuance of new Common Shares. The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares in the public market or the issuance of new Common Shares, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Common Shares or the Company's ability to raise capital in the future at a time and at a price that the Company deems appropriate.

If additional funds are raised through the issuance of new equity or equity-linked securities by the Company other than on a *pro rata* basis to existing shareholders, the percentage ownership of existing shareholders may be diluted. Such securities may also have rights, preferences and privileges senior to those of the Common Shares.

#### **Ability to pay dividends**

The Company's ability to declare dividends in relation to the Common Shares will depend on the Company's future financial performance, which, in turn, depends on successfully implementing the Company's strategy, and on financial, competitive, regulatory, and other factors, general economic conditions, demand and prices for the Company's future products, costs of raw materials and other factors specific to the Company's industry or specific projects, many of which are beyond the Company's control. The receipt of dividends from Fluxion, the Company's sole subsidiary, may also be affected by the passage of new laws, adoption of new regulations or changes to, or in the interpretation or implementation of existing laws and regulations and other events outside the Company's control. Philippine law requires that dividends be paid only out of unrestricted retained earnings calculated according to Philippines accounting principles. In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that the Company or Fluxion may enter into in the future may also restrict the ability of Fluxion to make contributions to the Company and the Company's ability to receive distributions or distribute dividends.

Finally, there is no assurance that the Company will maintain and increase its holdings in Fluxion. The Company evaluates each additional investment in these subsidiaries, and may choose to waive its right to invest in these entities, which could result in the dilution of its interest therein.

#### **The Offer Shares may not be a suitable investment for all investors.**

Each prospective investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each prospective investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Company and its business, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency;
- understand and be familiar with the behavior of any relevant financial markets;
- seek the advice of its legal, financial, accounting, tax and such other persons it deems necessary; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate

#### **No guarantee that the Offer Shares will be listed on the PSE.**

Purchasers of the Offer are required to pay the Offer Price of the Offer Shares so subscribed upon submission of their Applications during the Offer Period. Although the PSE has approved the Company's application to list the Offer Shares, because the Listing Date is scheduled after the Offer Period, there can be no guarantee that the listing of the Offer Shares will occur on the anticipated Listing Date. Delays in the admission and the commencement of trading of shares on the PSE have occurred in the past. If the PSE does not admit the Offer Shares for listing on the PSE, the market for these will be illiquid and holders may not be able to trade the Offer Shares. However, they would be able to sell these by negotiated sale. This may materially and adversely affect the value of the Offer Shares.

**Certain Information in this Prospectus**

Certain information in this Prospectus relating to the Philippines, the industries in which the Company's businesses compete, and the markets in which the Company develops its projects, including statistics relating to market size, is derived from various Government and private publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, any industry forecasts and market research, including those contained or extracted herein, have not been independently verified by the Company and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines. Prospective investors are cautioned accordingly.

## USE OF PROCEEDS

The Company estimates that its net proceeds from the Offer will be approximately ₱1,239.37 million after deducting the applicable underwriting discounts and commissions and expenses of the Offer payable by the Company, at the Offer Price of ₱3.97 per Offer Share.

The estimated net proceeds per Offer Share, which are the basis for calculating the above-mentioned net proceeds, has been calculated by subtracting from the Offer Price of ₱3.97 per Offer Share the estimated amount of underwriting discounts, commissions and offer expenses related to the Offer.

The Company intends to use the net proceeds from the Offer to finance the Company's expansion and acquisition plans, domestic and evolving markets within the South East Asia Region, such as Indonesia, Bangladesh, and Thailand, as discussed in more detail in "Business—Plans and Prospects" on page 59 of this Prospectus, and for general corporate purposes, including but not limited to working capital requirements, digital marketing campaigns, cost of sales and other operating expenses.

Further details of the proposed use of proceeds from the Offer are as follows:

Proposed Use	Budgeted Amount (in ₱ millions)	Proposed Timing of Disbursement
Expansion of existing points of distribution		
Indonesia .....	₱392.73	} November 2014 to November 2016
Bangladesh .....	₱177.72	
Thailand.....	₱157.09	
Development and expansion of existing content.....	₱250.00	November 2014 to November 2016
General corporate purposes .....		
	₱261.83	Not applicable
<b>Total .....</b>	<b>₱1,239.37</b>	

The foregoing discussion represents an estimate of the Company's net proceeds from the Offer based on current plans and anticipated expenditures, and the actual amount and timing of disbursement of the net proceeds from the Offer will depend on various factors which include, among others, changing market conditions or new information regarding the cost or feasibility of the Company's expansion plans and projects. Actual allocation of net proceeds by the Company may vary from the foregoing discussion as the Company's management may find it necessary or advisable to reallocate the net proceeds within the categories described above or to use such net proceeds for other corporate purposes. To the extent that the net proceeds from the Offer are not immediately applied to the above purposes, the Company will invest the net proceeds in short term demand deposits and/or money market instruments. If there is any material deviation from or adjustment to the planned use of proceeds as may be approved by the Board, the Company will inform its shareholders, the SEC and the PSE at least 30 days prior to implementation.

In addition, the Company shall submit via PSE Electronic Disclosure Generation Technology ("EDGE") the following disclosures to ensure transparency in the use of proceeds from the Offer:

- a. Any disbursements made in connection with the planned use of proceeds from the Offer;
- b. Quarterly progress report ("Quarterly Progress Report") on the application of the proceeds from the Offer, certified by the Company's Chief Financial Officer or Treasurer and external auditor. The Quarterly Progress Report shall be submitted on or before the first 15 days of the following quarter;



- c. Annual summary (“Annual Summary Report”) of the application of the proceeds from the Offer, certified by the Company’s Chief Financial Officer or Treasurer and external auditor. The Annual Summary Report shall be submitted on or before January 31 of the following year;
- d. Approval by the Company’s Board of any reallocation on the planned use of the proceeds or any change in the work program (“Work Program”). The actual disbursement or implementation of such reallocations will be disclosed by the Company at least 30 days prior to the said actual disbursement or allocation;

Each of the Quarterly Progress Report and Annual Summary Report will (i) include a detailed explanation of any material variances between the actual disbursements and the planned use of proceeds in the Work Program or this Prospectus, if any, and (ii) state the approval of the Company’s Board as required in item (d) above, if applicable.

The costs and expenses to be incurred by the Company for the Offer will be approximately ₱126.31 million, consisting of:

<b>Estimated total proceeds from the Offer</b>	<b><u>₱1,365.68 million</u></b>
<b>Expenses:</b>	
Underwriting and selling fees for Offer Shares .....	<b>₱44.05 million</b>
IPO tax and documentary stamp tax on the Offer Shares .....	<b>₱61.46 million</b>
SEC filing and legal research fee.....	<b>₱0.97 million</b>
Estimated professional fees .....	<b>₱14.67 million</b>
PSE listing and processing fees (including value-added taxes).....	<b>₱0.12 million</b>
Estimated other expenses.....	<b>₱5.04 million</b>
<b>Total expenses .....</b>	<b>₱126.31 million</b>
<b>Net proceeds from the Offer .....</b>	<b>₱1,239.37 million</b>

*\*Amounts rounded up for presentation purposes.*

Except as otherwise disclosed in this Prospectus, none of the proceeds from the Offer will be used to reimburse any officer, director, employee or shareholder of the Company for services, assets or money previously rendered, transferred, advanced or otherwise.

## **DETERMINATION OF THE OFFER PRICE**

The Offer Price of ₱3.97 per Offer Share has been determined through a book-building process and on the basis of discussions between the Company and the Sole Issue Manager and Sole Bookrunner. Since the Common Shares have not been listed on any stock exchange, there has been no market price for the Common Shares derived from day to day trading.

Among the factors that were considered in determining the Offer Price were the Company's financial performance and standing, the level of demand from institutional investors, dilution to existing shareholders, overall market conditions at the time the Offer Price was determined and the market price of listed comparable companies. The Offer Price may not have any correlation to the actual book value of the Offer Shares.

## PLAN OF DISTRIBUTION

The 344,000,000 Offer Shares shall be offered, through the Lead Underwriter, to the general public including institutional investors and high net worth individuals. Investors, except PSE Trading Participants (in respect of their allocated shares) and LSIs, will be required to pay, in addition to the Offer Price, a brokerage fee of 1% of the Offer Price. In the event that there are Offer Shares that remain unsubscribed, the Lead Underwriter shall subscribe to the balance pursuant to the terms and conditions of the Underwriting Agreement to be executed between the Company and the Lead Underwriter.

The Sole Issue Manager and Sole Bookrunner and the Lead Underwriter will receive issue management, underwriting and selling fees from the Company based on a percentage of the gross proceeds from the sale of the Offer Shares. These fees are inclusive of the amounts to be paid to the PSE Trading Participants and to any participating underwriter, where applicable (but exclude the brokerage fee of 1% of the Offer Price payable by Institutional Investors).

### UNDERWRITING COMMITMENTS

The Offer has been underwritten at the Offer Price and in connection therewith, an Underwriting Agreement will be entered into on or before the commencement of the Offer, between the Company and the Lead Underwriter, pursuant to which the Lead Underwriter has firmly committed, to subscribe for, or procure subscribers for, or to purchase, or to procure purchasers for the 344,000,000 Offer Shares to be offered. The Underwriting Agreement will be subject to certain conditions and is subject to termination by the Lead Underwriter if certain circumstances, including *force majeure*, occur on or before the time at which the Common Shares, including the Offer Shares, are listed on the PSE. In addition, this agreement is conditional, *inter alia*, on the Offer Shares being listed on the PSE on the Listing Date or such date as the Sole Issue Manager and Sole Bookrunner may determine.

The terms and conditions of the Underwriting Agreement are expected to include an agreement by the Company, *inter alia*, to indemnify the Lead Underwriter in respect of any breach of warranty by the Company contained therein.

### ALLOCATION TO THE TRADING PARTICIPANTS OF THE PSE AND LOCAL SMALL INVESTOR PROGRAM

Pursuant to the rules of the PSE, the Company will make available 68,894,000 Offer Shares comprising approximately 20% of the Offer for distribution to the PSE Trading Participants. The total number of Offer Shares allocated to the PSE Trading Participants will be distributed following the procedures indicated in the implementing guidelines for the Offer Shares to be distributed by the PSE.

PSE Trading Participants who take up the Offer Shares shall be entitled to a selling fee of 1% of the Offer Shares taken up and purchased by the relevant PSE Trading Participant. The selling fee, less a withholding tax of 10%, will be paid to the PSE Trading Participants within five banking days after the Listing Date.

The Trading Participants may be allowed to subscribe for their dealer accounts provided that, if they opt to sell the Offer Shares to the clients during the Offer period, it must be at a price not higher than the Offer Price per share. Likewise, the Trading Participants are prohibited from selling the Offer Shares during the period after the Offer period and prior to the Listing Date.

A total of 34,400,000 Offer Shares, or 10% of the Offer, shall be made available to LSIs. An LSI is defined as a subscriber to the Offer who is willing to subscribe to a maximum of 6,000 Offer Shares under the Local Small Investor Program. Should the total demand for the Offer Shares in the Local Small Investor Program exceed the maximum allocation, the Lead Underwriter and Sole Bookrunner shall allocate the Offer Shares by balloting.

Prior to the closing of the Offer, any allocation of the Offer Shares not taken up by the PSE Trading Participants and the LSIs shall be distributed by the Lead Underwriter, together with the syndicate of participating underwriters it may organize, to their clients or the general public in the Philippines. Offer Shares not taken up by the PSE Trading Participants, the LSIs, the clients of the Lead Underwriter or the general public shall be purchased by the Lead Underwriter.

#### **THE SOLE ISSUE MANAGER AND SOLE BOOKRUNNER AND THE LEAD UNDERWRITER**

SB Capital, the Sole Issue Manager and Sole Bookrunner and the Lead Underwriter, is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. As of December 31, 2013, its total assets amounted to ₱768.02 million and its capital base amounted to ₱754.6 million. It has an authorized capital stock of ₱1.0 billion of which approximately ₱350.0 million represents its paid-up capital. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

SB Capital has no other direct or indirect interest in the Company or in any securities thereof, including options, warrants, or rights thereto. Furthermore, it does not have any relationship with the Company other than as the Sole Issue Manager and Sole Bookrunner and as the Lead Underwriter for the Offer.

SB Capital also has no direct relations with the Company in terms of ownership by either their respective major stockholders, and has no right to designate or nominate any member of the Company's Board.

There is no contract or arrangement existing between or among the Company, the Sole Issue Manager and Sole Bookrunner and the Lead Underwriter, or any other third party whereby the Sole Issue Manager and Sole Bookrunner and the Lead Underwriter may return any unsold securities from the Offer.

Furthermore, there are no Offer Shares which are designated to be sold to specified persons.

#### **UNDERWRITERS' COMPENSATION**

The Sole Issue Manager and Sole Bookrunner and the Lead Underwriter shall receive from the Company issue management, underwriting and selling fees based on a percentage of the gross proceeds of the Offer, which shall be inclusive of amounts to be paid to the PSE Trading Participants and participating underwriters.

All reasonable out-of-pocket expenses to be incurred by the Sole Issue Manager and Sole Bookrunner and the Lead Underwriter in connection with the Offer shall be for the account of Company.

#### **LOCK-UP**

The PSE Listing Rules require an applicant company to cause its existing shareholders not to sell, assign or in any manner dispose of their shares for a period of one year after the listing of the shares. In addition, if there is any issuance or transfer of shares (*i.e.*, private placements, asset for shares swap

or a similar transaction) or instruments which lead to issuance of shares (*i.e.*, convertible bonds, warrants or a similar instrument) done and fully paid for within six months prior to the start of the offering period, and the transaction price is lower than that of the offer price, all shares availed of shall be subject to a lock-up period of at least one year from the listing of such shares.

To implement this lock-up requirement, the PSE requires the Company and its relevant shareholders to lodge the shares with the PDTC through a participant of the PDTC system for the electronic lock-up of the shares or to enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution.

All of the Company's existing stockholders are covered by the foregoing lock-up restrictions.

Likewise, considering that, within six months prior to the offering period, all of the Company's existing stockholders were issued Common Shares at less than the initial listing price of ₱3.97, the Common Shares they have acquired are likewise subject to the lock-up restrictions for a period of one year from the date when such Common Shares are listed on the SME Board of the PSE. For more information on the issuance of Common Shares to the Company's existing stockholders, please see "Description of the Common Shares" on page 78 of this Prospectus.

The following table summarizes the application of the PSE's lock-up restrictions to the Company's stockholders, and all of the Common Shares indicated below will be subject to lock-up for a period of one year from the Listing Date:

<b>Name of Stockholder</b>	<b>No. of Common Shares</b>
Nico Jose S. Nolleto	441,665,960
Fernando Jude F. Garcia	441,665,960
Raymond Gerard S. Racaza	441,665,960
Jose Vicente T. Colayco	22,750,320
Alfonso Antonio Tagaysay	22,750,320
Vanessa V. Barrameda	2,000,000
Ella C. Malapitan	2,000,000
Estrelita B Laban	1,000,000
Sarah Maese M. Espina	500,000
Wilfredo O. Racaza	1,060
Mercedita S. Nolleto	1,060
Jonathan Gerard A. Gurango	10
Alvin D. Lao	10

## **DIVIDENDS AND DIVIDEND POLICY**

Under Philippine law, dividends may be declared out of a corporation's unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders on the basis of outstanding stock held by them. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the SEC. The approval of the board of directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose.

### **RECORD DATE**

The Company's By-laws provide that for purposes of determining the shareholders entitled to receive payment of any dividends, whether cash, property or stock, the Board may fix in advance a date as the record date for any such determination of shareholders. The said By-Laws likewise provide that, in connection with the determination of the shareholders entitled to receive payment of any dividend, the Board may provide that the stock and transfer book be closed for a period of 10 business days immediately preceding such meeting declaring the dividends. No shares of stock of the Company may be transferred during the period when the books are closed.

In each case, the set record date shall not be less than ten trading days from disclosure to the PSE of the declaration of the dividend.

### **DIVIDEND POLICY ON THE COMMON SHARES**

The Company is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination thereof as may be determined by the Board. A cash or property dividend declaration does not require any further approval from shareholders; however, any declaration of stock dividends will be subject to approval of the Company's shareholders holding at least two-thirds of the Company's outstanding capital stock. The Board may not declare dividends where to do so would impair its capital.

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

In making a decision to declare dividends in the future, the Board may likewise take into account various factors, including:

- the level of the Company's cash, gearing, return on equity and retained earnings;
- the Company's results for, and the Company's financial condition at the end of the year, the year in respect of which the dividend is to be paid and the Company's expected financial performance;
- the Company's projected levels of capital expenditure and other investment plans; and
- such other factors as the Board deems appropriate.

The Company, however, cannot assure the public that it will pay any dividends in the future.

Apart from the discussion on dividends under “Risk Factors” in page 29 of this Prospectus, there are no restrictions that limit the Company’s ability to pay dividends in the future.

## **DIVIDEND HISTORY**

The Company’s Board of Directors approved the declaration and payment of Company of the following dividends to holders of the Common Shares as follows:

For the year 2014:

<b>Type of Dividend</b>	<b>Amount (in ₱)</b>	<b>Date of Declaration</b>	<b>Date of Payment</b>
Cash	36,000,000.00	August 7, 2014	August 26, 2014
Stock	61,250,000.00	July 10, 2014	September 2, 2014
Cash	30,250,000.00	June 5, 2014	June 25, 2014
Stock	61,250,000.00	May 5, 2014	June 25, 2014

For the year 2013:

<b>Type of Dividend</b>	<b>Amount (in ₱)</b>	<b>Date of Declaration</b>	<b>Date of Payment</b>
Cash	16,670,000	November 18, 2013	November 21, 2013
Cash	3,330,000	July 22, 2013	July 24, 2013
Cash	2,700,000	May 6, 2013	May 7, 2013
Cash	10,000,000	March 13, 2013	March 15, 2013

For the year 2012:

<b>Type of Dividend</b>	<b>Amount (in ₱)</b>	<b>Date of Declaration</b>	<b>Date of Payment</b>
Cash	10,000,000	December 28, 2012	December 31, 2012
Cash	3,889,613	October 16, 2012	October 17, 2012
Cash	10,000,000	June 29, 2012	June 29, 2012

## **DIVIDEND POLICY OF THE COMPANY’S SUBSIDIARY**

In 2005, the Company acquired a 65% controlling stake in Fluxion, the Company’s sole subsidiary to expand its product and service portfolio. Fluxion, originally an iAyala wholly-owned subsidiary, had been organized to engage in mobile and internet systems design and the development of programming languages, usability and social media.

### *Dividend Policy of Fluxion*

Aside from what is stated in Fluxion’s By-Laws and as provided under existing laws, Fluxion does not have a specific dividend policy. Fluxion’s By-Laws provide that dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property or stock to all stockholders on the basis of outstanding stock held by the, as often and at such times as the board may determine and in accordance with law and applicable rules and regulations.

*Dividend Payments of Fluxion to the Company for the Past Three Years*

The Company has received the following dividend payments from Fluxion for the past three years:

<b>Year</b>	<b>Type of Dividend</b>	<b>Amount (in ₱)</b>
2014	Cash	3,611,111.11
2013	Cash	11,916,667.00
2012	Cash	6,752,777.00



## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the Company's debt, equity and capitalization as of June 30, 2014, and as adjusted to reflect the sale of the Offer Shares.

For the purposes of making adjustments to the table below with respect to the Offer, the Company has estimated that it will receive net proceeds of up to ₱1,239,37 million from the sale of 344,000,000 Offer Shares in the Offer after deducting an estimated aggregate amount of underwriting commissions, discounts and fees and certain other estimated expenses the Company expects to incur in connection with the Offer. This estimate is based on the Offer Price of ₱3.97 per Offer Share. The actual underwriting commission, discounts, fees and other Offer-related expenses may likewise vary from the estimated amounts.

The table should be read in conjunction with the Company's consolidated financial statements and the notes thereto, included in this Prospectus beginning on page F-1A. Other than as described below, there has been no material change in the Company's capitalization since June 30, 2014.

	<b>Actual as of June 30, 2014</b>	<b>After Giving Effect to the Offer and Various Equity Transactions subsequent to June 30, 2014<sup>(1)</sup></b>
	<b>(₱ in millions)</b>	<b>(₱ in millions)</b>
<b>Total debt<sup>(2)</sup></b> .....	47.0	47.0
<b>Equity:</b>		
Capital stock .....	71.3	172.0
Additional paid-in capital .....	-	1,138.67
Other comprehensive loss .....	(0.2)	(0.2)
Retained earnings .....	117.3	117.3
Noncontrolling interests .....	12.8	12.8
<b>Total equity</b> .....	201.2	1,440.57
<b>Total capitalization</b> .....	248.2	1,487.57

*Notes:*

(1) Various debt and equity transactions subsequent to the June 30, 2014 consisting of (a) the increase in the authorized capital stock of the Borrower, and (b) the offer and sale of the Offer Shares.

(2) Total debt is comprised of "Accounts and other payables".

## DILUTION

Through the Offer, the Company will offer 344,000,000 Offer Shares to the public, all of which comprise new Common Shares to be issued from the authorized and unissued common stock of the Company.

The Offer Shares will be sold at the Offer Price, which will be substantially higher than the adjusted book value per share of the outstanding Common Shares, which will result in an immediate material dilution of the new investors' equity interest in the Company. The book value of the Company, based on its audited consolidated financial statements as of June 30, 2014, was ₱201.08 million, or ₱0.15 per Common Share. The book value represents the amount of the Company's total assets less the sum of its liabilities. The Company's book value per share is computed by dividing the book value by the equivalent number of Common Shares outstanding.

Dilution in pro-forma book value per share to investors of the Offer Shares represents the difference between the Offer Price and the pro-forma book value per Common Share immediately following the completion of the Offer.

After giving effect to an increase in the Company's total assets to reflect the receipt of the net proceeds of approximately ₱1,239.37 million from its sale of 344,000,000 Offer Shares pursuant to the Offer based on the Offer Price of ₱3.97 per Offer Share, the Company's book value will be approximately ₱1,440.45 million or ₱0.84 per Common Share. This represents an increase in book value of ₱0.69 per share to existing shareholders and an immediate decrease of ₱3.13 per Common Share to investors of the Offer Shares.

The following table illustrates dilution on a per Common Share basis based on the Offer Price of ₱3.97 per Offer Share in the Offer:

Offer Price per Offer Share.....	₱3.97
Pro forma Book Value per Share as of June 30, 2014 .....	₱0.15
Increase in Book Value per Share attributable to the Offer Shares .....	₱0.84
Pro forma Book Value per Share after the Offer .....	₱0.69
Decrease in Book Value per Share to Investors in the Offer Shares .....	₱3.13

The following table sets forth the shareholdings and percentage of Common Shares outstanding of existing and new shareholders of the Company immediately after completion of the Offer of 344,000,000 Offer Shares:

	Shares	
	Number	%
Existing Shareholders .....	1,376,000,660	80.0%
New investors .....	344,000,000]	20.0%
Total.....	1,720,000,660	100.0%

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of the Company's recent financial results should be read in conjunction with the independent auditor's reports and the Company's consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Summary Financial and Operating Information". The Company's audited consolidated financial statements as at June 30, 2014 and for the six-month periods ended June 30, 2014 and 2013 and as at and for the years ended December 31, 2013, 2012 and 2011 were audited by SGV & Co. and prepared in compliance with PFRS.*

*This discussion contains forward-looking statements and reflects the current views of Company with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.*

*The following is primarily a discussion of the Company's most recent financial period as presented in this Prospectus, and is based upon and should be read with, the consolidated financial statements and the related notes elsewhere in this Prospectus.*

### For the six months ended June 30, 2014 compared with the six months ended June 30, 2013

#### **Revenues**

For the six months ended June 30, 2014, total consolidated revenues of the Company amounted to ₱189.63 million, higher by ₱94.35 million or approximately doubling previous year's same period level of ₱95.28 million. Majority of the Company's revenues or ₱189.34 million came from service income.

Service income pertains to revenues earned from (i) its mobile consumer products and services segment (*i.e.*, revenues ultimately derived from providing mobile consumer content and services via the Telcos) and (ii) mobile enterprise services segment (*i.e.*, revenues derived from the provision of mobile platform solutions to corporate and government clients).

Revenue from the mobile consumer products and services segment for the six-months ended June 30, 2014 amounted to ₱155.18 million, higher by ₱79.45 million or 105% against the previous year's same period level. Revenue from mobile enterprise services segment also increased to ₱34.16 million for six-month period ended June 30, 2014 from ₱19.41 million level recorded for the six months ended June 30, 2013.

The increase in service income was driven primarily by the relentless marketing activity of the Company to push its mobile consumer content products and services, such as mobile games through the Company's innovative games platform (*e.g.* "GlobeGameswithFriends", "Grab-a-Gold", and others).

Interest income for the six months ended June 30, 2014 amounted to ₱0.21 million, higher compared to previous year's same period level of ₱0.07 million. Interest income pertains to the interest generated by the Company from its cash deposits in banks.

Other Income, on the other hand, amounted to ₱0.07 million for the first six months of 2014.

#### **Expenses**

The Company's consolidated expenses during the period amounted to ₱71.27 million, higher by ₱27.63 million or 63.29% compared to previous year's same period level of ₱43.64 million. Cost of services accounted for the bulk of expenses amounting to ₱62.98 million or 88.37% of the total.

Cost of services were mainly driven by expenses relating to (i) contractual services and (ii) salaries, wages and employee benefits, relating to the rendering by the Company of mobile consumer products and services and mobile enterprise services to its clients during the period.

Contractual services amounted to ₱39.71 million during the first six months of 2014 and are mainly attributed to the services rendered by Digital Storm, Inc. (“Digital Storm”) an entity under common control, in favor of the Company. These services include the promotion of mobile applications jointly developed with the Company and assistance in the deployment of such applications in the Company’s programs and events.

General and administrative expenses (such as salaries, wages and employee benefits, supplies, taxes and licenses, depreciation and amortization, rent, repairs and maintenance, utilities, etc.) relating to the Company’s day-to-day operations, on the other hand, amounted to ₱8.29 million, only slightly higher compared to previous year’s same period level of ₱8.17 million.

#### **Net Income before Tax**

The Company posted a consolidated net income before tax of ₱118.36 million for the period, significantly higher by ₱66.73 million compared to the ₱51.63 million level recorded for the six months ended June 30, 2013.

#### **Provision for Income Tax**

Provision for income tax during the period amounted to ₱13.52 million, higher compared by ₱6.22 million compared to previous year’s same period level of ₱7.30 million as a result of higher taxable income during the period.

#### **Net Income**

The Company posted a consolidated net income of ₱104.84 million for the six months ended June 2014, higher by ₱60.51 million or more than double than the ₱44.33 million level posted for the six-months ended June 30, 2013 in view of the robust revenues generated by the Company during the period while maintaining growth in total expenses at a moderate pace.

The share of the mobile consumer products and services segment, net of intersegment adjustments, to the Company’s consolidated net income amounted to ₱90.53 million or 86.36% of the total consolidated net income for the six-months ended June 30, 2014, ₱50.17 million higher than the ₱40.36 million share in consolidated net income for the six months ended June 30, 2013. The share of the mobile enterprise services segment to the consolidated net income for the period, meanwhile, amounted to ₱14.30 million or 13.64% of the total which is higher by ₱10.33 million compared to the ₱3.97 million in share in net income posted for the six-months ended June 30, 2013.

*For the year ended December 31, 2013 compared with the year ended December 31, 2012*

#### **Revenues**

For 2013, the Company posted total consolidated revenues of ₱252.06 million, 85.13% or ₱115.91 million higher compared to the ₱136.15 million total revenues recorded in 2012. Total revenues consisted mainly of service income amounting to ₱251.81 million.

Service income pertains to revenues earned from (i) its mobile consumer products and services segment (*i.e.*, revenues ultimately derived from providing mobile consumer content and services via the Telcos) and (ii) mobile enterprise services segment (*i.e.*, revenues derived from the provision of mobile platform solutions to corporate and government clients).

Revenue from the mobile consumer products and services segment for full year 2013 amounted to ₱190.01 million, higher by ₱112.09 million or 143.87% against previous year’s level of ₱77.92

million. Revenue from the mobile enterprise services segment meanwhile amounted to ₱61.80 million during the year, slightly higher compared to 2012 level of ₱58.13 million.

Interest income amounted to ₱0.17 million, slightly higher compared to previous year's level of ₱0.11 million. Interest income pertains to the interest generated by the Company from its cash deposits in banks.

### **Expenses**

The Company's consolidated expenses during the year amounted to ₱111.00 million, higher by ₱30.40 million or 37.72% compared to previous year's level of ₱80.60 million. Accounting for the bulk of expenses is cost of services amounting to ₱89.36 million or 80.51% of the total.

Cost of services included expense items such as (i) contractual services and (ii) salaries and wages and employee benefits which amounted to ₱37.51 million and ₱32.41 million, respectively during the year compared to 2012 respective levels of ₱18.16 million and ₱26.14 million.

The cost of services is directly related to the level of service income generated by Company.

### **Net Income before Tax**

The Company's consolidated net income before tax was recorded at ₱141.06 million during the year, significantly higher by ₱85.50 million compared to 2012 level of ₱55.56 million. This was primarily attributed to the higher revenues generated during the year while keeping the growth in operating expenses at moderate levels.

### **Provision for Income Tax**

Provision for income tax during the year amounted to ₱20.60 million, slightly higher compared to 2012 level of ₱17.35 million.

### **Net Income**

The Company's consolidated net income amounted to ₱120.46 million in 2013, an increase of ₱82.25 million or 215.25% compared to the ₱38.21 million net income level recorded in 2012. This increase is largely attributable to the Company's increase in revenues outpacing its increase in expenses.

The share of the mobile consumer products and services segment, net of intersegment adjustments, to the Company's consolidated net income amounted during the year amounted to ₱99.55 million or 82.64% of the total. The share of the mobile enterprise services segment to the consolidated net income, on the other hand, amounted to ₱20.92 million or 17.36% of the total consolidated net income for 2013.

*For the year ended December 31, 2012 compared with the year ended December 31, 2011*

### **Revenues**

For 2012, the Company posted total consolidated revenues of ₱136.15 million, 42.74% or ₱40.77 million higher compared to the ₱95.38 million revenues recorded in 2011. Total revenues consisted mainly of service income amounting to ₱136.04 million.

Service income pertains to revenues earned from (i) its mobile consumer products and services segment (*i.e.*, revenues ultimately derived from providing mobile consumer content and services via the Telcos) and (ii) mobile enterprise services segment (*i.e.*, revenues derived from the provision of mobile platform solutions to corporate and government clients).

Revenue from the mobile consumer content services segment amounted to ₱77.92 million, higher by ₱9.40 million or 14% against the same period for the previous year while revenue for the mobile enterprise services segment also increased to ₱58.13 million from ₱26.79 million versus the same period of the prior year.

Revenue from the mobile consumer products and services segment for 2012 amounted to ₱77.92 million, representing a 57.27% share to the Company's total consolidated revenues during the year. Meanwhile, revenues from the mobile enterprise segment amounted to ₱58.13 million or 42.73% of total consolidated revenues during the year.

Interest income amounted to ₱0.11 million, slightly higher compared to previous year's level of ₱0.08 million. Interest income pertains to the interest generated by the Company from its cash deposits in banks.

### **Expenses**

The Company's consolidated expenses during the year amounted to ₱80.60 million, higher by ₱13.06 million or 19.34% compared to previous year's level of ₱67.54 million. Accounting for the bulk of expenses is cost of services amounting to ₱63.80 million or 79.16% of the total expenses for the year December 31, 2012.

Cost of services included expense items such as (i) contractual services and (ii) salaries and wages and employee benefits which amounted to ₱18.16 million and ₱26.14 million, respectively during the year compared to 2011 respective levels of ₱22.70 million and ₱21.93 million.

The increase in cost of services is directly related to the level of service income generated by Company.

### **Net Income before Tax**

Consolidated net income before tax was recorded at ₱55.56 million during the year, significantly higher by ₱27.71 million compared to the 2011 level of ₱27.85 million primarily attributed to the higher revenues generated for the year while keeping the growth in operating expenses were kept at lower levels.

### **Provision for Income Tax**

Provision for income tax during the year amounted to ₱17.35 million, considerably higher compared to the 2011 level of ₱7.68 million.

### **Net Income**

The Company's consolidated net income amounted to ₱38.21 million in 2012 compared to the ₱20.16 million net income level recorded in 2011.

The mobile consumer content and services segment, net of intersegment adjustments, accounted for ₱15.93 million of the net income for the year ended December 2012, ₱2.04 million higher than the ₱13.89 million level posted for the year ended December 2011. The mobile enterprise services segment rose as well, to ₱22.28 million for the year ended December 2012, ₱16.00 million higher compared to the ₱6.27 million in net income posted for the year ended December 2011.

In terms of share to the Company's consolidated net income in 2012, the mobile consumer content and services segment contributed ₱15.93 million or 41.70% of the total while the mobile enterprise services segment accounted for ₱22.28 million or 58.30% of total consolidated net income for 2012.

## Financial Position

*As of June 30, 2014 compared to as of December 31, 2013*

### Assets

#### *Cash*

The Company's consolidated cash on hand and deposited with banks amounted to ₱138.45 million as of June 30, 2014, an increase of 60.05% or ₱51.95 million from consolidated cash on hand and deposited with banks of ₱86.50 million as of December 31, 2013. The increase was due mainly to the higher net income generated by the Company during the period.

#### *Receivables*

The Company's consolidated receivables amounted to ₱109.92 million and ₱83.43 million as of June 30, 2014 and December 31, 2013, respectively, representing an increase of 31.75% or ₱26.49 million. Trade receivables mainly accounted for most of the total at ₱107.28 million, which is mainly attributed to the receivables from Globe Telecom and other companies for services rendered by Company's mobile consumer content and services segment and mobile enterprise services segment. These trade receivables are non-interest bearing and are generally settled on a 30- to 60-day terms.

#### *Other Current Assets*

The Company's consolidated other current assets amounted to ₱5.20 million, an increase of ₱2.89 million or 124.74% from the consolidated other current assets level of ₱2.31 million as of December 31, 2013. The increase was mainly due to the increase in the level of deferred input value-added tax (₱1.42million), refundable deposits (₱0.96 million), and prepaid expenses (₱0.50 million) during the period compared to end December 2013 levels.

Deferred input VAT represents deferral of input VAT related to the unpaid balances of the services availed by the Company. 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 deposits that can be refunded within one year upon the termination of the lease contract. Prepaid expenses mainly include prepayments for rentals, membership dues and taxes.

#### *Available for Sale Financial Assets*

The Company's available for sale financial assets remained almost flat at ₱3.83 million as of June 30, 2014, from the ₱3.82 million level as of December 31, 2013. This account consisted of convertible bonds invested by the Company in Pico Candy Pte. Ltd. and quoted club shares in Club Punta Fuego.

#### *Property and Equipment*

The Company's consolidated property and equipment was ₱4.07 million as of June 30, 2014, representing a slight decrease of 4.55% from the ₱4.26 million level as of December 31, 2013. Property and equipment mainly consisted of transportation, office and information technology equipment and furniture and fixtures. The Company maintains minimal levels of property and equipment as a result of its practice of renting (*i.e.* office space) and leasing (*i.e.*, server capacity) as opposed to owning.

#### *Deferred Tax Assets - net*

The Company's consolidated net deferred tax assets level amounted to ₱2.05 million as of June 30, 2014, slightly higher by ₱0.36 million compared to the ₱1.69 million level as of December 31, 2013. The Company's net deferred tax assets consisted primarily of deferred tax assets on accrued expenses.

### *Other Noncurrent Assets*

Other noncurrent assets amounted to ₱1.35 million as of June 30, 2014, an increase of ₱1.23 million from the ₱0.12 million level recorded as of December 31, 2013 due to advances to contractors for renovation of the Company's new office which will be applied against future billings, refundable security deposits for the rental of new office space and advance rentals.

### **Liabilities**

#### *Accounts and Other Payables*

The Company's consolidated accounts and other payables stood at ₱47.02 million as of June 30, 2014, an increase of ₱8.58 million or 22.32% compared to the ₱38.44 million level as of December 31, 2013. The Company's accounts and other payables consisted mainly of deferred output value-added tax (₱14.75 million), payables to related parties (₱14.57 million), taxes payable (₱8.21 million) and trade payables (₱7.57 million).

#### *Income tax payable*

The Company's consolidated income tax payable as of June 30, 2014 amounted to ₱2.95 million, representing a decline of 78.03% or ₱10.47 million compared to the ₱13.42 million income tax payable level as of December 31, 2013.

#### *Deferred tax liabilities*

The Company's consolidated deferred tax liabilities was ₱13.82 million as of June 30, 2014, an increase from the consolidated deferred tax liabilities of ₱8.61 million as of December 31, 2013. The deferred tax liabilities primarily pertained to deferred tax liabilities on the accrued income and unrealized foreign exchange currency gain posted by the Company during the period.

### **Equity**

#### *Total Equity*

The Company's total equity expanded to ₱201.08 million as of June 30, 2014, an increase of ₱79.4 million or 65.26% compared to the ₱121.68 million recorded as of December 31, 2013. The increase was basically driven by the rise in retained earnings in view of the higher net income recorded by the Company during the period.

*As of December 31, 2013 compared to as of December 31, 2012*

### **Assets**

#### *Cash*

The Company's consolidated cash on hand and deposited with banks amounted to ₱86.50 million as of December 31, 2013, an increase of 316.28% from consolidated cash on hand and deposited with banks of ₱20.78 million as of December 31, 2012. The increase was attributed primarily to the higher net income generated by the Company in 2013 compared to the previous year.

#### *Receivables*

The Company's consolidated receivables level amounted to ₱83.43 million as of December 31, 2013, representing an increase of 57.36% from the consolidated receivables of ₱53.02 million as of December 31, 2012. Trade receivables amounting to ₱81.02 million accounted for most of the total



receivables of the Company. These trade receivables are attributed mainly to the services rendered by the Company's mobile consumer content and service segment and mobile enterprise services segment to or through its major client, Globe Telecom and other companies.

#### *Other Current Assets*

The Company's consolidated other current assets amounted to ₱2.31 million as of December 31, 2013, an increase of 77.18% from the consolidated other current assets level of ₱1.31 million as of December 31, 2012.

#### *Available for Sale Financial Assets*

The Company's available for sale financial assets amounted to ₱3.82 million as of December 31, 2013, an increase of 1,561.79% from previous year's level of ₱0.23 million as of December 31, 2012. This account consisted mainly of convertible bonds of Pico Candy Pte. Ltd. and club shares in Club Punta Fuego. The Company invested in Pico Candy Pte. Ltd. in August 2013 through the subscription in convertible bonds issued by the latter amounting to US\$0.10 million which was equivalent to ₱3.60 million. As a result of this investment, the Company gained access to Pico Candy Pte. Ltd.'s extensive library of mobile stickers.

#### *Property and Equipment*

The Company's consolidated property and equipment was ₱4.26 million as of December 31, 2013, an increase of 37.25% from ₱3.10 million as of December 31, 2012. The increase in the level of property and equipment during the year was mainly due to the purchase of additional transportation equipment by the Company. Property and equipment mainly consisted of IT, office, transportation equipment, furniture and fixtures and leasehold improvements. The Company maintains minimal levels of property and equipment as a result of its practice of renting (*i.e.*, office space) and leasing (*i.e.*, server capacity) as opposed to owning.

#### *Deferred Tax Assets- net*

The Company's level of deferred tax assets amounted to ₱1.69 million as of December 31, 2013, primarily attributed to accrued expenses.

#### *Other Noncurrent Assets*

The Company's consolidated noncurrent assets amounted to ₱0.12 million as of December 31, 2013, lower by 76.67% from the ₱0.52 million level recorded as of December 31, 2012.

### **Liabilities**

#### *Accounts and Other Payables*

The Company's consolidated accounts and other payables were ₱38.44 million as of December 31, 2013, an increase of ₱16.38 million or 74.22% from consolidated accounts and other payables level of ₱22.06 million as of December 31, 2012. The increase was mainly attributable to the growth in payable to related parties (₱7.18 million), trade payables (₱1.83 million) and taxes payable (₱3.10 million) during the year.

Payable to related parties of ₱11.23 million as of December 31, 2013 was accounted for mainly by payables to Digital Storm amounting to ₱9.68 million. The Company outsources from Digital Storm a portion of its mobile consumer products and services rendered to Globe Telecom and other companies. The transactions of the Company with Digital Storm pertain to the revenue sharing on the compensation received as operational partner of the Company for the services rendered to Globe

Telecom by the Company's mobile consumer content and services segment. The amount payable to Digital Storm is non-interest bearing and is due and demandable.

#### *Income Tax Payable*

The Company's consolidated income tax payable was ₱13.42 million as of December 31, 2013, an increase of ₱10.53 million from consolidated income tax payable of ₱2.89 million as of December 31, 2012.

#### *Deferred Tax Liabilities*

The Company's consolidated deferred tax liabilities was ₱8.61 million as of December 31, 2013, lower by 36.99% compared to the consolidated deferred tax liabilities of ₱13.67 million as of December 31, 2012. Deferred tax liabilities primarily during the year mainly pertained to deferred tax liabilities on accrued income and unrealized foreign exchange currency gain reported by the Company.

### **Equity**

#### *Total Equity*

Total equity stood at ₱121.68 million as of December 31, 2013, representing an increase of 201.63% or ₱81.34 million from the ₱40.34 million level as of December 31, 2012. The increase in total equity was primarily attributed to the growth in the level of retained earnings as a result of the net income generated by the Company in 2013.

*As of December 31, 2012 compared to as of December 31, 2011*

### **Assets**

#### *Cash*

The Company's consolidated cash on hand and deposited with banks was ₱20.78 million as of December 31, 2012, an increase of 71.62% from consolidated cash on hand and deposited with banks of ₱12.11 million as of December 31, 2011. The increase was due mainly to the higher net income generated by the Company in 2012.

#### *Receivables*

The Company's consolidated current portion of receivables amounted to ₱53.02 million as of December 31, 2012, representing an increase of 39.44% from consolidated current portion of receivables of ₱38.02 million as of December 31, 2011. The increase was due mainly to the rise in trade receivables, which comprised the majority of the total receivables of the Company, amounting to ₱52.69 million in 2012 versus ₱34.78 million in 2011. These trade receivables are attributed mainly to services rendered by the Company's mobile consumer content and services segment and mobile enterprise services segment to or through its major client, Globe Telecom and other companies.

#### *Other Current Assets*

The Company's consolidated other current assets amounted to ₱1.31 million as of December 31, 2012, a decrease of 59.56% from the consolidated other current assets level of ₱3.23 million as of December 31, 2011.

### *Available for Sale Financial Assets*

The Company's available for sale financial assets amounted to ₱0.23 million as of December 31, 2012, an increase of 9.5% from previous year's level of ₱0.21 million as of December 31, 2011. This account consisted mainly of club shares purchased from Club Punta Fuego.

### *Property and Equipment*

The Company's consolidated property and equipment amounted to ₱3.10 million as of December 31, 2012, an increase of 104% from consolidated property and equipment of ₱1.52 million as of December 31, 2011. The increase in the level of property and equipment during the year was mainly due to the purchase of additional transportation equipment by the Company. Property and equipment mainly consisted of IT, office, transportation equipment, furniture and fixtures and leasehold improvements. The Company maintains minimum levels of property and equipment as a result of its practice of renting (*i.e.*, office space) and leasing (*i.e.*, server capacity) as opposed to owning.

### *Other Noncurrent Assets*

The Company's consolidated noncurrent assets amounted to ₱0.52 million as of December 31, 2012, higher by 82.22% from the ₱0.28 million level recorded as of December 31, 2011.

## **Liabilities**

### *Accounts and Other Payables*

The Company's consolidated accounts and other payables were ₱22.06 million as of December 31, 2012, an increase of ₱9.00 million from consolidated accounts and other payables level of ₱13.06 million as of December 31, 2011. The increase was primarily driven by the increase in trade payables (₱8.35 million in 2012 versus ₱3.64 million in 2011), payable to related parties (₱4.05 million in 2012 versus ₱3.46 million in 2011) and taxes payable (₱5.75 million in 2012 versus ₱1.90 million in 2011). Trade payables represents the unpaid subcontracted services and other cost of services to third parties while payable to related parties consists of liabilities to DSI for services rendered in favor of the Company and advances to stockholders for the operating expenditures that were shouldered by the stockholders on the Company's behalf. Taxes payable consists of output VAT after application of available input VAT and expanded withholding tax on payment to suppliers and employees' compensation.

### *Income Tax Payable*

The Company's consolidated income tax payable was ₱2.89 million as of December 31, 2012, an increase from consolidated income tax payable of ₱0.09 million as of December 31, 2011.

### *Deferred Tax Liabilities*

The Company's consolidated deferred tax liability was ₱13.67 million as of December 31, 2012, higher by 149% compared to the consolidated deferred tax liability of ₱5.50 million as of December 31, 2011. Deferred tax liabilities during the year pertained to deferred tax liabilities on accrued income and unrealized foreign exchange currency gain reported by the Company.

## **Equity**

### *Total Equity*

The Company's total equity stood at ₱40.34 million as of December 31, 2012, representing a 36.13% increase from the ₱29.63 million level as of December 31, 2011. The increase was attributed mainly to the increase in retained earnings on the back of higher net income for the year.

## Liquidity and Capital Resources

The Company's liquidity relies mainly on cash flow from operations. The Company knows of no demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity. The Company is current on all of its accounts. The Company does not have any bank debt. The Company does not anticipate having any cash flow or liquidity problems over the next 12 months. The Company is not in breach or default on any loan or other form of indebtedness.

### Cash Flows

In Php '000	For the years ended December 31			For the six month period ended June 30	
	2011 (audited)	2012 (audited)	2013 (audited)	2013 (audited)	2014 (audited)
Net cash provided by operating activities <sup>1</sup>	15,264.54	39,306.77	111,392.82	42,954.36	79,467.07
Net cash used in investing activities	(932.12)	(3,109.02)	(6,553.41)	(2,696.45)	(2,079.80)
Net cash used in financing activities	(9,388.36)	(27,525.72)	(39,116.67)	(15,616.67)	(25,444.44)
Net Increase in cash	4,944.06	8,672.03	65,722.74	24,641.24	51,942.82
Cash at beginning of period	7,163.84	12,107.90	20,779.93	20,779.93	86,502.68
Cash at end of period	12,107.90	20,779.93	86,502.68	45,421.17	138,445.49

<sup>1</sup> Net of effect of foreign currency exchange rate changes on cash

#### *Cash flow provided by operating activities*

The Company's consolidated net cash provided by operating activities is primarily affected by the revenues generated from the Company's operations, predominantly from service income earned from services rendered by the Company's mobile consumer content and services segment and mobile enterprise services segment to its clients. The Company's consolidated net cash provided by operating activities were ₱79.47 million and ₱42.95 million for the period ended June 30, 2014 and 2013, respectively and ₱111.39 million, ₱39.31 million and ₱15.26 million for the years ended December 31, 2013, 2012 and 2011, respectively.

#### *Cash flows used in investing activities*

The Company's consolidated net cash flow used in investing activities for the period ended June 30, 2014 and June 30, 2013 amounted to ₱2.08 million and ₱2.70 million, respectively. For the period ended June 30, 2014, consolidated net cash flow used in investing activities reflected acquisitions of transportation equipment as well as office and IT equipment.

The Company's consolidated net cash flow used in investing amounted to ₱6.55 million, ₱3.11 million and ₱0.93 million for the years ended December 31, 2013, 2012 and 2011, respectively.

#### *Cash flow used in financing activities*

The Company's consolidated net cash flow used in financing activities for the period ended June 30, 2014 and 2013 amounted to ₱25.44 million and ₱15.62 million, respectively. For the six-month period ended June 30, 2014, consolidated net cash flow used in financing activities was attributable mainly to the declaration of cash dividends by the Company on June 5, 2014 amounting to ₱30.25 million and the issuance of 6.75 million shares at a par value of ₱1.00 per share from the unissued portion of the Company's authorized capital stock, which was approved by the Company's Board of Directors on May 2, 2014.

The Company's consolidated net cash flow used in financing activities amounted to ₱39.12 million, ₱27.53 million and ₱9.39 million for the years ended December 31, 2013, 2012 and 2011, respectively which consisted of payment for cash dividends.

### **Capital Expenditure**

The Company's capital expenditures for the six-month period ended June 30, 2014 and for the years ended December 31, 2013 and 2012 amounted to ₱0.91 million, ₱3.34 million and ₱2.88 million, respectively. The table below sets forth the primary capital expenditures of the Company over the same periods. The Company has minimal levels of capital expenditure because of its usual practice of renting (*i.e.*, office space) and leasing (*i.e.*, server capacity) as opposed to owning.

	<i>For the years ended December 31</i>		<i>For the six month period ended June 30</i>
In PhP '000,000	<b>2012 (audited)</b>	<b>2013 (audited)</b>	<b>2014 (audited)</b>
IT equipment	0.33	0.46	0.06
Leasehold improvements	0.40	-	-
Office equipment	0.62	0.43	0.63
Furniture & fixtures	0.33	0.03	0.22
Transportation equipment	1.20	2.42	-
<b>Total</b>	<b>2.88</b>	<b>3.34</b>	<b>0.91</b>

### **Commitments and Contingent Liabilities**

The Company has no contingent liabilities for the six-month period ended June 30, 2014 and for the years ended December 31, 2013 and 2012.

### **Key Performance Indicators**

The following are the key performance indicators of the Company and its majority-owned subsidiary:

	<i>For the years ended December 31</i>			<i>For the six month period ended June 30</i>	
	2011	2012	2013	2013	2014
Net income margin <sup>1</sup>	18.85%	22.36%	44.93%	45.13%	52.73%
Gross margin <sup>2</sup>	39.81%	53.10%	64.51%	62.72%	66.74%
Operating margin <sup>3</sup>	30.41%	41.79%	56.89%	55.43%	63.09%
Return on total assets <sup>4</sup>	39.86%	45.28%	86.67%	41.42%	54.18%
Return on equity <sup>5</sup>	110.94%	107.71%	157.74%	69.54%	79.85%

<sup>1</sup> Net income margin computed as net income attributable to the equity holders of Xurpas Inc. over total service income.

<sup>2</sup> Gross margin computed as gross income (service income less cost of services) over total service income.

<sup>3</sup> Operating margin computed as earnings before interest, taxes, depreciation and amortization over total service income.

<sup>4</sup> Return on total assets computed as net income attributable to the equity holders of Xurpas Inc. over average total assets.

<sup>5</sup> Return on equity computed as net income attributable to the equity holders of Xurpas Inc. over average equity attributable to the equity holders of Xurpas Inc.

## INDUSTRY OVERVIEW

*The information in this section has been derived from various government and private publications or obtained from other publicly available information and has not been prepared or independently verified by the Company, the Sole Issue Manager and Sole Bookrunner, the Lead Underwriter, any of the underwriters or any of their respective affiliates or advisors. The Company does not have any knowledge that such information from such sources is inaccurate in any material respect. The information may not be consistent with other information compiled within or outside the Philippines.*

The mobile industry in the Philippines has seen a steady growth since the Philippine government liberalized the communications industry in 1993, with various players entering the market and making acquisitions and consolidations that gave rise to the dominant players in the telecommunications industry today: Smart Communications, Globe Telecom and Sun Cellular.

Competition in the mobile market has remained intense in light of the high number of users in the population, with consumers availing multiple services from different telecommunications carriers as well as unlimited and bulk offers. Smart Communications, Globe Telecom and Sun Cellular have since then introduced mobile value-added services, encompassing a broad array of products such as music, information services and other downloadable content, and have also offered unlimited call and text services.

Reports indicate that the number of mobile phone subscriptions in the Philippines has grown to 110 million, a striking figure in view of the country's population of around 100 million people. Based on figures released to the public, Globe Telecom pegs its total number of subscribers at over 41 million, while Smart Communications estimates that it has over 55 million subscribers on its network.

Smart Communications and Globe Telecom have continued to expand their 4G LTE coverage, with Smart recently announcing the deployment of "5G" wireless technology in August 2014, a technology that is much faster than the standard 3G and 4G connections. At the same time, the price of mobile internet access has become much more affordable, with the prevalence of "unlimited" data plans offered by telecommunications carriers.

Furthermore, the use of smartphones in the Philippines is steadily rising, with studies showing that the total number of smartphones in use are expected to hit 27 million by the end of 2014, a marked increase from 2013 statistical data. The increased usage of smartphones is primarily driven by the emergence of very low-priced devices in the market. Companies like Cosmic Technologies, Inc., which markets devices under the Cherry Mobile brand, and MySolid Technologies and Devices Corp., which markets the MyPhone brand, already offer full-featured smartphones on the Android operating system that are available at less than half the cost of those devices offered by market leaders such as Samsung and Apple.

# **BUSINESS**

## **OVERVIEW AND RECENT DEVELOPMENTS**

The Company is a technology company specializing in the creation and development of digital products and services for mobile end-users, as well as the creation, development and management of proprietary platforms for mobile operators. The Company offers a complete portfolio of products, including online casual games, messaging and other social discovery applications, as well as mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce. The Company is principally owned and managed by the young and dynamic team composed of Messrs. Nico Jose S. Nollado, Raymond Gerard S. Racaza and Fernando Jude F. Garcia, each of whom have accumulated over 15 years of experience in the ICT industry.

The Company was incorporated under the laws of the Republic of the Philippines on November 26, 2001, with the primary purpose of developing, producing, selling, buying or dealing in products, goods or services in connection with the transmission, receiving or exchange of voice, data, video or any form or kind of communication.

Originally founded to act as a sub-contractor of Sonera Zed, a division of Sonera, a major telecommunications operator based in Finland, the Company's initial operations in 2001 were limited to supplying mobile digital content to Sonera Zed. At the time, Sonera, the parent company of Sonera Zed, had established an exclusive partnership with Smart Communications to develop and provide mobile digital content for Smart Communications' growing telecommunications network.

After the Company obtained a value-added services provider license from the NTC, the Company began to engage in creating and delivering mobile consumer content and services directly to local Telcos and other PTEs. Even as the Company continued to supply mobile consumer content to Sonera Zed and other mobile consumer content providers, the Company had begun to develop and offer its very own mobile consumer content – in the form of what would now be considered as “legacy” content (*i.e.*, mobile ring tones, SMS-based applications, etc.) – directly to Globe Telecom and Smart Communications, the two leading Telcos then and now.

At the same time, utilizing its growing relationships with Philippine Telcos, the Company created and developed pioneering mobile marketing solutions for local consumer brands which had started to harness mobile telecommunications to promote their products. From 2003 to 2005, the Company successfully implemented the very first mobile marketing campaigns of major brands such as Jollibee, San Miguel, Petron and Penshoppe.

In 2005, the Company acquired a 65% controlling stake in Fluxion, the Company's sole subsidiary, to expand its product and service portfolio. Fluxion, originally an iAyala wholly-owned subsidiary, had been organized to engage in mobile and internet systems design and the development of programming languages, usability and social media. Through Fluxion, the Company developed mobile platform solutions for the benefit of its client Telcos, which were used (and are still being used) by millions of mobile subscribers at any given time.

Since its founding in 2001, the Company has grown into a technology company with an extensive mobile consumer content and services portfolio designed for mobile and online consumers as well as considerable expertise in creating, developing and managing proprietary platforms and enterprise applications for Telcos and other businesses. At present, the Company is one of the largest independent mobile consumer content provider in the Philippines in terms of revenue, and counts as its clients for its mobile consumer content and services business the three leading Philippine Telcos: Smart Communications, Globe Telecom and Sun Cellular.

The success of the Company's mobile consumer content and services business, particularly its online casual games, has resulted in a remarkable rate of growth over the past three years, defined by its (i) exponential revenue growth of 75% average year-on-year from 2011 to 2013, (ii) high margins of 42% average EBIT from 2011 to 2013 and (iii) ₱484 million cumulative revenues from 2011 to 2013. For 2014, the Company believes that its online casual games business, with operating margins in excess of 70%, is on-track to become the Company's largest line of business.

As of December 31, 2013, the Company had total assets of ₱182 million, while total revenue and net income for the year ended December 31, 2013 were ₱252 million and ₱120 million, respectively. As of June 30, 2014, the Company had total assets of ₱265 million, while total revenue and net income for the six months ended June 30, 2014 were ₱190 million and ₱105 million, respectively.

## **PRODUCTS AND SERVICES**

### **Mobile Consumer Content and Services**

One of the Company's primary businesses is the creation and development of mobile consumer content and other value-added services for mobile phone subscribers such as online casual games, info-on-demand services (*e.g.*, news, social and other entertainment information), chat and messaging applications (*e.g.*, mobile stickers), ringtones, licensed or unlicensed content such as music, videos and other content of similar nature. In addition, for its online casual games, such as Grab-a-Gold, GlobeGameswithFriends and PlaySmart, each of which have been tailored for an internet and online consumer base, the Company develops and maintains its own platforms which host and enable mobile subscribers to access or use such products. The provision of these products and services for end-users is performed by the Company's mobile consumer content and services segment.

#### *Content Provider Agreements with Telcos*

As of the date of this Prospectus, the Company is a party to content provider agreements with all three of the Philippines leading Telcos, namely, Smart Communications, Globe Telecom and Sun Cellular.

Under these arrangements, the Company is primarily responsible for conceptualizing, designing, sourcing, generating and maintaining (including, where necessary, de-bugging) mobile consumer content and services which its client Telco may avail of for distribution to or access, subscription or use by its mobile phone subscribers. On the other hand, the client Telco shall be responsible for all costs incurred in maintaining and operating its telecommunications network, as well as the billing and collection of the fees prescribed by the Telco for access, subscription or use of the mobile consumer content and services and paid by the Telco's mobile phone subscribers.

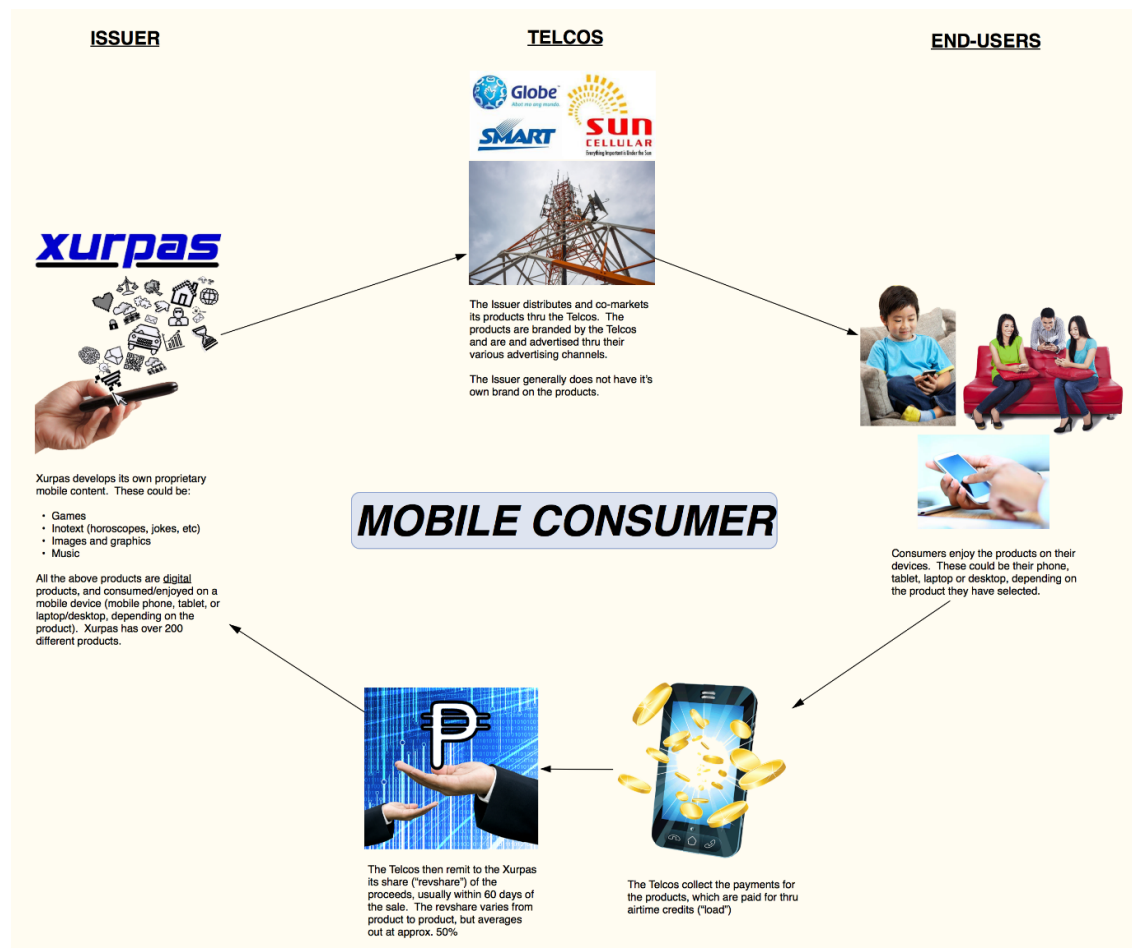
Access or subscription fees payable for access or subscription to the Company's mobile consumer content are paid exclusively through a mobile subscriber's outstanding mobile airtime credits, and payment of such fees is made by a subscriber by crediting a short code (which is a specific network access code assigned by the Telco to the Company) with the corresponding amount of mobile airtime credit. For instance, a mobile subscriber who wishes to subscribe to a news service offered by the Company subscription to which is available for a price of ₱2.50 will need to send to the short code, by SMS, an instruction to the Telco (in the form of brief text commands) to debit his or her outstanding mobile airtime credit with the amount of ₱2.50. All access or subscription fees paid (or deemed paid) by the mobile subscriber are received and collected by the Telco.

In consideration for providing its client Telco mobile consumer content and services (or access to such content, as for example, the mobile consumer content consists of licensed content such as music or videos), the Company receives a share in the revenues derived by the Telco from the fees paid by its mobile phone subscribers to the Telco to access, subscribe to or to use such mobile consumer content and services. This share may vary depending on the type of content or service provided by the Company, but is typically equivalent to at least 50% of such access, subscription or usage fees, and is distributed to the Company by the Telco on a monthly basis.



As of December 31, 2013, the Company's total revenue and net income from its mobile consumer products business were ₱190.01 million and ₱99.55 million, respectively, while total revenue and net income from its mobile consumer products business were ₱155.18 million and ₱90.53 million, respectively, for the six months ended June 30, 2014.

To better understand that Mobile Consumer business of the Company, below is a simple illustration:

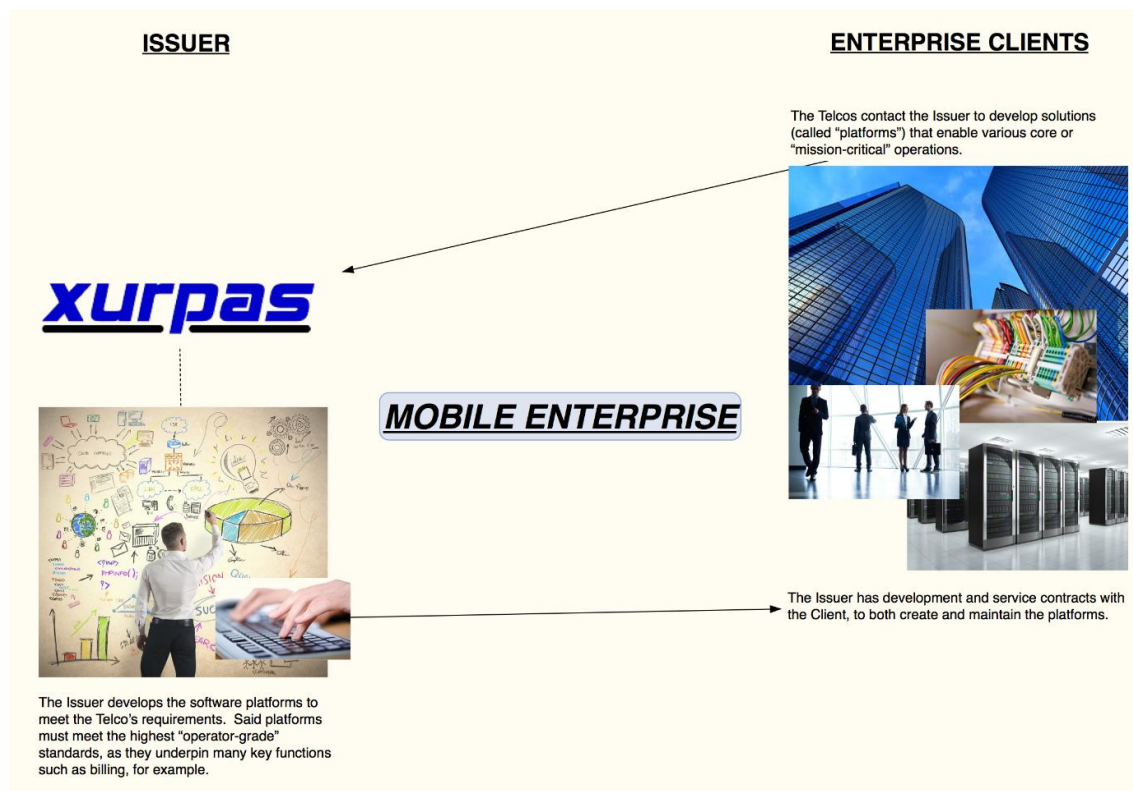


## Mobile Enterprise

The Company develops, on its own or in close collaboration with other technology companies, mobile platform solutions for the benefit of clients such as Philippine Telcos, government agencies including the Land Transportation Office, the Social Security System, and other top-tiered companies like Robinsons Land Corporation, Nestle Philippines, Inc. and Pepsi-Cola Products Philippines, Inc. These products, which are tailored to a client's particular requirements and are used by millions of mobile subscribers at any given time, comprise the Company's mobile enterprise services segment and include mission-critical applications such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce.

As of December 31, 2013, the Company's total revenue and net income from its mobile enterprise business were ₱61.80 million and ₱20.92 million, respectively, while total revenue and net income from its mobile enterprise business were ₱34.16 million and ₱14.30 million, respectively, for the six months ended June 30, 2014.

To better understand that Mobile Enterprise business of the Company, below is a simple illustration:



### Other Services: Mobile Marketing Solutions

The Company creates and provides mobile marketing solutions to local and international consumer brands seeking to promote their products through mobile telecommunications. Through its service agreements with prominent brands such as Yahoo, Jollibee, Nestle, Petron, Unilever and Procter & Gamble, the Company develops applications which implement the SMS portions of such brands' mobile telecommunications marketing campaigns, as well as programs which facilitate the interconnection of such applications with the telecommunications networks of its client Telcos.

In consideration of the services rendered by the Company (which includes licensing of the Griffin SMS Gateway program, the Company's proprietary platform which allows the Company to deploy its mobile applications across the telecommunications networks of all of its client Telcos ), the Company generally receives stipulated development fees and retainer fees (where the engagement is on-going for a specified period of time).

### Competition

The Company is one of the largest independent mobile consumer content developers in the Philippines, and based on internal estimates, the Company holds an estimated 15% market share in the mobile consumer content development business and an estimated 30% share in the mobile enterprise development business.

For its mobile consumer content development business, the Company competes with over 100 mobile consumer content providers. However, the Company believes that its primary competitors comprise the internal mobile consumer content development divisions of its own client Telcos and certain mass media companies in the Philippines, including Information Gateway, Inc., Chikka Philippines, Inc., ABS-CBN Mobile, GMA New Media, Inc., G-Gateway, Zed, Wolfpac and Rising Tide.

Entertainment Gateway, Inc. and Chikka Philippines, Inc. are the mobile consumer content development divisions of Globe Telecom and Smart Communications, respectively, and generate and

provide such Telcos with mobile consumer content and services. On the other hand, ABS-CBN Mobile and GMA New Media, Inc. primarily provide access or subscription to licensed or unlicensed content such as music, videos and other content of similar nature associated with, produced or distributed by their affiliated mass media networks.

For its mobile enterprise development business, the Company considers Stratpoint Technologies, Inc. and Seer Technologies, Inc. as its main competitors. These companies generally provide outsourced web and mobile applications development services for their clients.

## **COMPETITIVE STRENGTHS**

### *Leading mobile consumer content developer with a strong platform for future growth*

The Company is one of the largest independent mobile consumer content developers in the Philippines, in terms of revenue. Since its founding in 2001, the Company has grown into a technology company specializing in creating, developing and providing mobile digital products and services designed for mobile consumers as well as creating and developing proprietary platforms for Telcos and other commercial enterprises, and counts as its clients the three leading Philippine Telcos: Smart Communications, Globe Telecom and Sun Cellular.

The Company's experience in creating, developing and providing value-added services to the three leading Philippine Telcos has enabled the Company to gain expertise in the mobile consumer content development industry. With this experience, the Company believes it has a strong platform to participate in the expected future growth of the mobile consumer industry following the rapid increase in internet and smartphone usage in the Philippines, through both the expansion of its points of distribution and strategic acquisitions to enhance its mobile consumer content development capabilities.

### *Independently developed intellectual property*

The Company believes that its competitors in the mobile consumer content and services business have structured their businesses substantially on delivering (or permitting access) licensed content to mobile consumers, which engenders increasing reliance on third party licensors who may or may not deliver on their commitments to such competitors.

In contrast, the Company creates and develops its own mobile consumer content and delivery of licensed content represents a miniscule part of its business and operations. For instance, for its online casual games, such as Grab-a-Gold, GlobeGameswithFriends and PlaySmart, the Company develops and maintains its own proprietary platforms which host and enable mobile subscribers to access or use such products. In addition, the Griffin SMS Gateway program, through which the Company deploys mobile applications through any telecommunications network protocol and which has allowed the Company to render mobile promotional services for its clients across all leading Telco networks, is likewise a proprietary platform developed exclusively by the Company.

The Company's ownership of its intellectual property eliminates its reliance on any one mobile content or service provider to generate, allow access to or provide the Company mobile consumer content or mobile applications for delivery to its clients. Moreover, the Company's ability to develop its own mobile consumer content allows it to absolutely control the quality of such content, and to tailor it to keep up with emerging market trends and mobile consumer preferences. The Company believes that this ability and this independence help the Company to improve the profitability of its product and services portfolio, preserve high profit margins and ensure that its products are ready for export and distribution.

### *Established technological capability*

While a significant portion of its revenues is derived from its mobile consumer content business, unlike most of its competitors, the Company likewise engages, by itself or in collaboration with other technology companies, in the creation and development of advanced mobile software platforms and applications used for business and enterprise purposes and requirements such as customized call/SMS/data bundles, peer-to-peer mobile airtime credit transfers and various forms of mobile commerce transactions.

The Company believes that its ability to create not only mobile consumer content but even more sophisticated enterprise solutions allows the Company to offer a wider range of products and services to its clients than its competitors, to continuously improve its existing portfolio and to expand or diversify such portfolio as its markets may require.

### *Experienced management and development team*

The Company's senior management has extensive experience in the Philippine ICT industry, and the Company believes that they have a deep understanding of the Philippine ICT markets with respect to the operational, financial and business development aspects relating to the creation and development of mobile consumer content. The senior management team also has strong professional relationships with key industry participants, such as the NTC, the Telcos and other PTEs. The members of the Company's directors and senior management have on average more than 15 years of experience in executive management, including strengths in key areas of mobile consumer content development and mobile commerce, and are widely considered as pioneers in the Philippine ICT industry, having been founding directors of the Internet Mobile Marketing Association ("IMMAP") and the Digital Commerce Association of the Philippines ("DCOM") and [rappler.com](http://rappler.com).

The Company also prides itself with having in its employ highly-trained software and content developers, as well as marketing executives who have established strong relationships with industry players including the Company's client Telcos.

The Company believes that the strength of its management and development teams will enable it to maintain and strengthen its position as a leading mobile consumer content developer in the Philippines.

## **PLANS AND PROSPECTS**

The Company intends to grow its mobile consumer content and services business by: (i) establishing operations within the South East Asia region to expand its sales of mobile consumer content to a broader range of customers, including Telcos within the region and (ii) implementing strategic acquisitions of existing mobile consumer content, enterprise and applications developers and proprietary technologies.

### *Regional expansion of points of distribution*

The Company intends to expand its ability to distribute its existing and new mobile consumer content to emerging markets in the South East Asia region, which represent a mobile subscriber population of over one billion, excluding the Philippines. These markets present conditions similar to the Philippine mobile market, as these markets feature rising internet and smartphone penetration and its mobile subscriber populations are predominantly under prepaid arrangements. Among other strategies, the Company plans to establish content provider arrangements with Telcos operating within the South East Asia region to offer, develop, distribute and market its mobile products and services to such Telcos' mobile subscribers.

As the Company's mobile products and services have passed the highest standards of Philippine Telcos and its mobile enterprise platforms and applications are widely considered as network or

carrier-grade, the Company believes that it is in a strong position to expand its operations outside the Philippines and to offer its existing portfolio to Telcos within the South East Asia region. To do so, the Company intends to undertake operations within the South East Asia region by opening regional offices or, depending on prevailing market conditions and the regulatory and business environments, by implementing strategic acquisitions of existing mobile consumer content developers with an established presence or relationship with major Telcos in the region.

#### *Enhancement of content creation capabilities and mobile enterprise solutions*

The Company plans to make meaningful acquisitions designed to gain access to proprietary technologies and content to improve its ability to create, develop and distribute content within the Philippines and the Southeast Asia Region and to expand its existing product and services portfolio. For this purpose, the Company intends to acquire other technology companies with content and technologies consistent with the Company's over-all market strategy. These companies may include both local and international developers of smartphone games and other mobile content and services.

Likewise, the Company is working with Pico Candy Pte. Ltd., a content developer based in Singapore, to build a mobile sticker application store with potentially the largest collection of mobile stickers in the world. Moreover, the Company is actively pursuing the development of its mobile enterprises business to further expand its operations in mobile marketing activities.

### **TRANSACTIONS WITH RELATED PARTIES**

The Company, in the ordinary course of its business, engages in transactions with related parties. The Company's policy with respect to related party transactions is to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties.

The most significant of these transactions include outsourced servicing with Digital Storm of the Company for the mobile consumer content services rendered to Globe Telecom and other clients of the Company. The following are the major transactions of the Company with related parties as of June 30, 2014:

#### *Service Agreement with Digital Storm*

On January 1, 2011, the Company entered into a service agreement with Digital Storm, wherein the latter shall render services in favor of the Company. The services include promotion of mobile applications jointly developed with the Company and assistance in the deployment of such applications in the Company's programs in events. In return, the Company shall pay Digital Storm a certain percentage of the revenues generated from such application.

#### *Other Major Transactions*

- a. The Company has outstanding receivables from Digital Storm amounting to ₱1.83 million and ₱1.61 million as of June 30, 2014 and December 31, 2013, respectively, for the operating expenditures incurred by the Company on its behalf.
- b. The Company has outstanding receivables from Starfish Mobile Technologies Pty. amounting to ₱0.31 million as of June 30, 2014 and December 31, 2013, for the operating expenditures incurred by the Company on its behalf.
- c. The transactions of the Company with its stockholders pertain to advances for reimbursement of common expenses incurred by the Company and Fluxion (the "Group") in behalf of the stockholders and advances for the acquisition of property and equipment and operating expenditures that were paid by the stockholders on the Group's behalf.

For further information on the Company's related party transactions, including detailed breakdowns of amounts receivable from and amounts payable to related parties, see Note 13 of the Company's consolidated financial statements for the year ended December 31, 2013 and Note 15 of the Company's consolidated financial statements for the six months ended June 30, 2014, included in this Prospectus.

## **INTELLECTUAL PROPERTY**

As the Company creates, develops and maintains substantially all of its mobile consumer content, the Company owns and holds exclusive rights to its entire product portfolio, excluding mobile consumer content in the form of licensed content such as music, videos and other content of a similar nature which it licenses through third party licensors and which represent only 1% of its business.

Key intellectual property of the Company includes the Griffin SMS Gateway program, which is a proprietary platform developed by the Company through which the Company deploys mobile applications through any telecommunications network protocol. The Griffin SMS Gateway program is built on a modular architecture and is written in Java, an industry standard programming language which allows the program to be deployed using most common operating systems, with the following key features:

- The Griffin SMS Gateway allows the Company to connect to any of its client Telco's SMS center, which represents the heart of any Telco's wireless network handling all SMS operations, such as routing, forwarding and storing SMS messages, using popular protocols.
- The Griffin SMS Gateway contains a "Multi-Function Middleware" feature which allows the Company to interface with its client Telco's "Intelligent Network", which is the network that allows a Telco to offer value-added services to its mobile subscribers on top of its standard services (voice and call services), through UCIP or Diameter, MMSCs via MM7, or billing systems via proprietary SOAP-XML or other proprietary HTTP-based protocols.
- The Java API of the Griffin SMS Gateway allows the Company's application developers to write code that can easily be integrated or deployed across multiple carriers who may have different systems.

The Company likewise owns exclusive rights to its corporate name, as well as various brand names and marks which are used for its operations, such as *GlobeGameswithFriends*, *Grab-a-Gold*, *PlaySmart*, and *Crazywireless*.

## **RESEARCH AND DEVELOPMENT**

As of the date of this Prospectus and for the last three fiscal years, the Company has not made any significant investment in research and development activities.

## **REGULATION AND KEY LICENSES**

The Company's primary business, that is, the development and delivery of mobile consumer content to its client Telcos, is considered as a form of value-added services regulated by the NTC under the Public Telecommunications Policy Act and related implementing regulations issued by the NTC.

While a value-added services provider (unlike other entities regulated under the Public Telecommunications Policy Act) is not required to obtain a franchise to operate, the NTC requires that any such provider obtain and maintain a VAS License which shall expressly indicate the value-added services that such provider is authorized to provide. Under existing regulations, the following services may be rendered by a holder of a VAS License:

- messaging services (SMS, multimedia messaging or unified messaging services)

- information services (delivery of info-on-demand content such as road traffic information, financial information, statistics, or other similar information)
- electronic gaming services (but excluding gambling)
- applications services (delivery of applications such as mobile banking applications, electronic payments, point-of-sale services and other applications of similar nature)
- content and program services (delivery of licensed or unlicensed content such as music, ringtones, logos, video clips and other content of similar nature)
- audiotxt services (delivery of info-on-demand content in voice-mail like systems)

The Company holds a VAS License issued by the NTC valid until January 3, 2016, pursuant to which the Company is authorized to engage in all of the foregoing value-added services.

## **Environmental Compliance**

As the Company's business operations do not involve or impact the environment in a significant way, the Company is not subject to nor is it required to comply with any material environmental law or regulation, other than general rules applicable to commercial enterprises in the ordinary course.

## **HUMAN RESOURCES**

The Company believes that its relationship with its employees is generally good and, since the start of its operations, the Company has not experienced a work stoppage as a result of any labor or labor-related disagreements. None of the Company's employees belong to a union.

The table below sets forth the breakdown of the Company's labor complement, grouped according to function, as of November 10, 2014:

Executives .....	6
Accounting, Finance, Human Resources and Administrative .....	7
Marketing .....	8
Technical Staff .....	<u>38</u>
Total .....	<u>59</u>

The Company has adopted a rewards and recognition policy that is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talents. Tied to these is a performance management system that calls for the alignment of individual key results, competencies, and development plans with the Company's overall business targets and strategy. Performance is reviewed periodically and employees are rewarded based on the attainment of pre-defined objectives. The Company also maintains programs for its employees' professional, technical and personal development.

As the Company intends to expand its operations both within the Philippines and the South East Asia Region, the Company expects to grow its labor complement and to engage additional personnel to accommodate its expanded operations. Subject to prevailing market conditions and should any of the Company's business pursuits are completed within the next 12 months, new employees may be hired. The number of employees will not exceed 120.

## **PROPERTIES**

The Company does not hold any real property of material value. The Company's principal office is presently located at the 7<sup>th</sup> Floor, Cambridge Centre, 108 Tordesillas St., Salcedo Village, Makati City, Philippines, which is leased by the Company from Gervel, Inc. The term of the lease commenced on April 1, 2014 and will expire on January 1, 2017, subject to renewal upon mutual agreement of the parties. The monthly rental for the leased premises are as follows: (i) ₱202,800 for the period of April 1, 2014 to March 31, 2016 and (ii) ₱212,940 for the period of April 1, 2016 to

March 31, 2017. Payments under this lease agreement amounted to ₱608,400 for the six months ended June 30, 2014.

Other than its shares in Fluxion and its intellectual properties described elsewhere in this Prospectus, the Company does not hold significant properties.

#### **INSURANCE**

As of the date of this Prospectus, the Company does not hold any insurance of material value.

#### **LEGAL PROCEEDINGS**

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



## BOARD, MANAGEMENT AND CERTAIN SHAREHOLDERS

### BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The overall management and supervision of the Company is undertaken by the Board. The Board is composed of seven members, two of whom are independent directors. The term of a director is one year from date of election and until their successors are elected and qualified.

As of the date of this Prospectus, the composition of the Company's Board is as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Nico Jose S. Nollado	37	Filipino	Chairman, President and Chief Executive Officer	2001
Raymond Gerard S. Racaza	36	Filipino	Director, Treasurer and Chief Operating Officer	2001
Fernando Jude F. Garcia	40	Filipino	Director, Chief Technology Officer and Corporate Secretary	2001
Wilfredo Oposa Racaza	66	Filipino	Director	2001
Mercedita S. Nollado	73	Filipino	Director	2001
Jonathan Gerard A. Gurango	57	Filipino	Independent Director	2014
Alvin D. Lao	43	Filipino	Independent Director	2014

Except for the Company's independent directors who were each appointed as directors on August 11, 2014, each of the Company's directors was elected to the Board during the Company's last annual stockholders' meeting held on May 5, 2014. Each director shall remain in office until the next annual meeting of the stockholders of the Company or his or her removal or resignation as may be allowed under law.

The table below sets forth the Company's executive officers in addition to its executive directors listed above as of the date of this Prospectus:

Name	Age	Citizenship	Position
Jose Vicente T. Colayco	45	Filipino	Chief Business Development Officer
Alfonso A. Tagaysay	40	Filipino	Chief Marketing Officer

The following discussion presents a brief description of the business experience of each of the Company's directors and executive officers over the past five years.

#### **Nico Jose S. Nollado**, *President, Chief Executive Officer and Chairman of the Board*

Mr. Nico Jose S. Nollado is the President, Chief Executive Officer and Chairman of the Board of the Company. He is also the Chairman of Fluxion, a subsidiary of the Company. A recognized pioneer in the Philippine ICT industry, Mr. Nollado first started in the consumer technology sector when he founded PinoyExchange.com in 1999. Since then, he has founded, funded and sat on the board of directors of a number of technology companies such as Rappler.com, Gurango Software and

MyRegalo.com. Mr. Nolleto is also the founding director and former president of the IMMAP, the founding director of DCOM and presently sits as a member of the Entrepreneurs' Organization (EO), Philippine chapter.

Mr. Nolleto holds a Bachelor of Science degree in Management from Ateneo de Manila University in Loyola Heights, Quezon City.

**Raymond Gerard S. Racaza, *Director, Treasurer and Chief Operating Officer***

Mr. Raymond Gerard S. Racaza is a co-founder, Chief Operating Officer and Treasurer of the Company. He is responsible for the overall business operations of the Company, such as carrier-relationship management, marketing, product design, and profit and loss responsibility for the core Company services. Under his leadership, the Company grew from a start-up company to become one of the top technology companies in the country. Mr. Racaza spearheaded the launch of multiple Xurpas projects including *Gentxt*, *Jollibee Bee Hottah*, *Petron Tank Up and Text*, and the Company's big campaigns.

Before founding Xurpas, Mr. Racaza was the Senior Solutions Consultant of Wireless Internet Solutions, Inc. He was also part of the original development team of iAyala that built the first Wireless Application Protocol (WAP) site in the Philippines.

Mr. Racaza holds a Bachelor of Science degree in Computer Science, Major in Information Technology from De La Salle University.

**Fernando Jude F. Garcia, *Director, Chief Technology Officer and Corporate Secretary***

Mr. Fernando Jude F. Garcia is a co-founder, Chief Technology Officer and Corporate Secretary of the Company. He created the Griffin Platform of the Company which is the mobile consumer content gateway and platform for all of the Company's mobile consumer content products and services. He also created the Company's modular middleware system that can easily integrate with any modern billing gateway. He is the chief engineer responsible for the Company's software architecture and systems integration. Examples of such systems and protocols are the following: for SMS (CIMD2/EMI-UCP/SMPP), for MMS (EIAF/MM7), for Voice Services (SIP), for Billing/IN (Diameter/UCIP/ParlayX2.1) and Security (IPSEC). Mr. Garcia directly manages and supervises the technology team of the Company. Before joining the Company, Mr. Garcia was part of iAyala as a software developer, during which time he learned Java, web development, data base programming and Unix/Linux administration.

Mr. Garcia holds a Bachelor of Science degree in Applied Physics from the University of the Philippines in Diliman, Quezon City.

**Wilfredo O. Racaza, *Director***

Mr. Wilfredo O. Racaza is a director of the Company. He has 45 years of Marketing and Finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. Mr. Racaza is currently an insurance executive in Manulife Financial Philippines for the last 29 years up to present. He has garnered numerous accolades and awards. Among the highlights are multiple Branch of the Year awards, and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to 2014.

Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University in Cagayan de Oro City.

**Mercedita S. Nolledo, Director**

Ms. Mercedita S. Nolledo is currently a director of Bank of the Philippine Islands, BPI Family Savings Bank and BPI Capital Corporation. She is also a director of Anvaya Golf and Nature Club, Inc. She is Chairman of BPI Investment Management Corporation. She is also a director of Honda Cars Makati, Inc., Automotive Isuzu Dealership, Iconic Dealership, Inc. and Ayala Automotive Holdings.

Ms. Nolledo is also a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. She has served as a director of Cebu Holdings, Inc. from 1993 to 2006 and of Ayala Corporation from 2004 to 2010.

Ms. Nolledo was formerly Corporate Secretary and General Counsel of the Ayala Group of Companies and the Senior Managing Director of the Ayala Corporation. She served as Executive Vice President, director and Corporate Secretary of Ayala Land, Inc. and as the firm's Treasurer.

Ms. Nolledo placed 2<sup>nd</sup> during the Certified Public Accountant exams in 1960 and also placed 2<sup>nd</sup> during the bar exams in 1965. She holds a Bachelor of Science degree in Business Administration, magna cum laude, from the University of Philippines. Ms. Nolledo holds a Bachelor of Laws (L.L.B.) degree, cum laude, from the University of the Philippines.

**Jonathan Gerard A. Gurango, Independent Director**

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

Mr. Gurango holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines, Diliman, Quezon City. He also obtained his Bachelor of Science degree in Electrical Engineering from the University of Washington.

**Alvin D. Lao, Independent Director**

Alvin D. Lao is the Executive Vice President and the Chief Financial Officer of D&L Industries, Inc. He is also the Chief Financial Officer and Treasurer of Chemrez Technologies Inc. He serves as Director of Axis REIT, a real estate investment trust listed in Malaysia and as a Vice President of the Technology Club of the Philippines (Philippine alumni of the Massachusetts Institute of Technology), and is a past president and current member of the Entrepreneurs Organization (EO, Philippine Chapter). He is also a member of the Financial Executives Institute of the Philippines (FINEX) and the Wallace Business Forum. He is a director of Enderun Colleges, Gurango Software Corporation, First in Colours, Incorporated, D&L Polymer and Colours, Incorporated, FIC Tankers Corporation, Ecozone Properties, Inc., Anonas LRT Property and Dev't Corp., and Hotel Acropolis, Inc.

He graduated from the University of Western Australia with a Bachelor of Science degree in Information Technology (Honors). He also holds a Masters degree in Business Administration from the MIT Sloan School of Management.

**Jose Vicente T. Colayco, *Chief Business Development Officer***

Mr. Jose Vicente T. Colayco is the Chief Business Development Officer of the Company. Before he joined the Company, he was the co-founder and co-managing director of Digital Storm, a developer of on-line casual game platforms. Mr. Colayco was also the President of 888 Creative Studios (a subsidiary of Information Gateway, Inc.) from 2004 to 2010, during which time he led the management of relationships with foreign and local licensors from the music, motion picture and game industries. Mr. Colayco also served as Managing Director for EMI Music Philippines and Marketing Director for Sony Music Philippines.

Mr. Colayco holds a Bachelor of Arts degree in Philosophy and Religious Studies from Brown University, Magna Cum Laude. He obtained his Masters in Business Administration from Harvard Business School in Boston, Massachusetts.

**Alfonso A. Tagaysay, *Chief Marketing Officer***

Mr. Alfonso A. Tagaysay is the Chief Marketing Officer of the Company. He has 14 years of experience in the mobile consumer content industry, managing mobile companies operating in various South East Asian markets: Philippines, Indonesia, Malaysia and Bangladesh.

Before joining the Company, Mr. Tagaysay was the co-founder and co-managing director of Digital Storm, Inc. From 2004 to 2010, he was a Managing Director of Information Gateway. From 2000-2004, he was with Globe Telecom as Director. Prior to mobile, he worked in advertising with McCann Erickson from 1997 to 2000.

Mr. Tagaysay holds a Bachelor of Arts, Management Economics degree from Ateneo de Manila University in Loyola Heights, Quezon City.

**Significant Employees**

While the Company values the contribution of each executive and non-executive employee, there is no non-executive employee that the resignation or loss of whom would have a significant adverse effect on the business of the Company. Other than standard employment contracts, there are no arrangements with non-executive employees that will assure the continued stay of these employees with the Company.

**Family Relationships**

Ms. Mercedita S. Nollado, a member of the Board, is the mother of Mr. Nico Jose S. Nollado, the Company's President and Chairman of the Board. Likewise, Mr. Wilfredo O. Racaza, a member of the Board, is the father of Mr. Raymond Gerard S. Racaza, a director, and the Company's Treasurer and Chief Operating Officer.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among the Company's directors and executive officers.

**Involvement in Certain Legal Proceedings**

The Company is not aware of any adverse events or legal proceedings during the past five years that are material to the evaluation of the ability or integrity of its directors or executive officers. To the best knowledge of the Company, none of its present directors or executive officers has been subject to the following:

- Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

- Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- Any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities, commodities, or banking activities; or
- Found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

## Director and Executive Compensation

Since its incorporation in 2001, the Company's directors (other than reasonable per diem for non-executive directors as discussed below) have not received any salary or compensation for their services as directors.

From the years 2011 to 2014, including the six months ended June 30, 2014, except for Messrs. Jose Vicente T. Colayco and Alfonso A. Tagaysay (each of whom joined the Company in January 2014), the Company's executives did not receive any salary or compensation for their services to the Company. Beginning August 2014, Messrs. Nico Jose S. Nollado, Raymond Gerard S. Racaza and Fernando Jude Garcia began receiving compensation for their services to the Company.

The following table summarizes the aggregate compensation received by the top five executive officers of the Company for the years 2011, 2012 and 2013 and the period from January 2014 until September 30, 2014:

Name	Position	Salary	Estimated		Total
			Bonus	Other	
Nico Jose S. Nollado	President & Chief Executive Officer				
Fernando Jude F. Garcia	Corporate Secretary & Chief Technology Officer				
Raymond Gerard S. Racaza	Treasurer & Chief Operating Officer				
Jose Vicente T. Colayco	Chief Business Development Officer				
Alfonso A. Tagaysay	Chief Marketing Officer				
Total .....	2014 <sup>1</sup>	₱10,351,294.1	N/A	N/A	₱10,351,294.1
	2013 <sup>2</sup>	N/A	N/A	N/A	N/A
	2012 <sup>3</sup>	N/A	N/A	N/A	N/A
	2011 <sup>4</sup>	N/A	N/A	N/A	N/A

### All other officers and directors as a group

unnamed ..... Not Applicable

<sup>1</sup> Includes compensation received by Messrs. Nollado, Garcia, and Racaza beginning August 2014.

<sup>2</sup> The Company's top executives did not receive any compensation or salary for the year 2013.

<sup>3</sup> The Company's top executives did not receive any compensation or salary for the year 2012.

<sup>4</sup> The Company's top executives did not receive any compensation or salary for the year 2011.

## Standard Arrangements

Other than payment of reasonable per diem of ₱10,000 per non-executive director for every meeting, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

## Other Arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, for any services provided as a director.

## Employment Contracts with Executive Officers

There are no special employment contracts between the Company and its named executive officers.

## Warrants and Options Held by the Executive Officers and Directors

As of the date of this Prospectus, there are no outstanding warrants or options for the Common Shares held by the executive officers and directors of the Company.

Except as described above, there are no other arrangements pursuant to which any of the Company's directors and executive officers was compensated, or is to be compensated, directly or indirectly.

## SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN RECORD AND BENEFICIAL OWNERS

Security ownership of management and certain record and beneficial owners of more than 5% of the Company's voting securities are as follows:

Title of Class	Name, Address of Record Owners and relationship with the Issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Percent of class
Common	<b>Nico Jose S. Nollado</b> Urdaneta Apartment Ayala Avenue Makati City	Record owner is also the beneficial owner.	Filipino	441,665,960	32.10%
Common	<b>Fernando Jude F. Garcia</b> North Lane Jem 2 Subdivision Tandang Sora, Quezon City	Record owner is also the beneficial owner.	Filipino	441,665,960	32.10%
Common	<b>Raymond Gerard S. Racaza</b> One Salcedo Place Jaime C. Velasquez St. Salcedo Village Makati City	Record owner is also the beneficial owner.	Filipino	441,665,960	32.10%
Common	<b>Jose Vicente T. Colayco</b> Tolentino St. San Lorenzo Village, Makati City	Record owner is also the beneficial owner.	Filipino	22,750,320	1.65%
Common	<b>Alfonso Antonio Tagaysay</b> Legaspi Park View Legaspi Village, Makati City	Record owner is also the beneficial owner.	Filipino	22,750,320	1.65%
Common	<b>Wilfredo Oposa Racaza</b> Domingo Poblete St. BF Homes Executive Village Las Piñas City	Record owner is also the beneficial owner.	Filipino	1,060	Nil

Common	<b>Mercedita S. Nollado</b> Urdaneta Apartment Ayala Avenue Makati City	Record owner is also the beneficial owner.	Filipino	1,060	Nil
Common	<b>Jonathan Gerard A. Gurango</b> Orchard Road 21A Olympic Heights T2 Eastwood City Quezon City	Record owner is also the beneficial owner.	Filipino	10	Nil
Common	<b>Alvin D. Lao</b> Atlas St., Acropolis Quezon City	Record owner is also the beneficial owner.	Filipino	10	Nil
<b>Total Common Shares</b>				1,370,500,660	99.6%

### **Voting Trust**

The Company is not aware of any person holding more than 5% of shares under a voting trust or similar agreement.

### **Change in Control**

The Company is not aware of any arrangements that may result in a change in control of the Company.

### **Certain Relationships and Related Transactions**

Except as described elsewhere in this Prospectus, there are no significant related party transactions involving the Company.

## **CORPORATE GOVERNANCE**

To fully comply with the adopted leading practices on good corporate governance, the Company has prepared and executed the Manual which was approved and adopted by the Board of the Company on December 7, 2011 which was effective January 1, 2012.

The Manual provides for, among others, the following:

- appointment of a compliance officer, who shall hold the position of vice president or its equivalent, and have direct reporting responsibilities to the Chairman of the Board and the Corporate Governance Committee, and monitor compliance with the provisions and requirements of the Manual;
- responsibilities, specific duties and functions of the Board of Directors, which includes ensuring that the Company complies with all relevant laws, regulations and codes of best business practices, adopting a system of internal checks and balances, and identify key risk areas and key performance indicators and monitor these factors with due diligence;
- creation of Board Committees, such as the Audit Committee, the Nomination Committee, the Compensation Committee and the Audit and Governance Committee;
- the conduct of a training process for the purpose of conducting an orientation program or workshop to operationalize the provisions of the Manual;

- procedures for monitoring and assessment compliance with the Manual; and
- penalties for non-compliance with the Manual.

As prescribed by the Code of Corporate Governance promulgated by the SEC, the Manual provides the detailed qualifications and disqualifications, duties, functions and responsibilities of the Compliance Officer, the Board of Directors and each member thereof, the Chairman, the President, the Corporate Secretary, the External Auditor and the Internal Auditor. It also mandates the creation of specific Board committees in aid of good corporate governance, to wit, an Audit Committee, a Nominations Committee and a Compensation Committee, and requires the Board to commit itself to the protection of the rights of stockholders.

To fully comply with the leading practices in good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

The Company is prepared to take further steps to enhance adherence to principles and practices of good corporate governance.

## **COMMITTEES OF THE BOARD**

The Company has established the following Board committees in accordance with its Manual and the Company's By-laws.

### **Executive Committee**

The Executive Committee, which may be organized from time to time upon determination of the Board, shall have and may exercise, when the Board is not in session, the powers of the Board in the management of the business and affairs of the Corporation, except with respect to certain actions specifically reserved for Board action. The Company's Executive Committee shall have no less than three members, which shall include the President.

### **Compensation and Remuneration Committee**

The Compensation and Remuneration Committee establishes a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provides oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Company's culture, strategy and control environment. The Compensation and Remuneration Committee also designates the amount of remuneration of directors and officers, develops a form on full business interest disclosure as part of the pre-employment requirements for all incoming officers, which among others, compel all officers to declare under the penalty of perjury, all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired by the Company, and reviews the Company's human resources development or personnel handbook. The Company's Compensation and Remuneration Committee shall have at least three members, one of whom shall be an independent director.

### **Nomination Committee**

The Nomination Committee formulates the screening policies to enable such committee to effectively review the qualification of the nominees for independent directors and conducts nominations of independent directors prior to the stockholders' meetings in accordance with the procedures set forth under the SRC. The Company's Nomination Committee shall have no less than three members, one of whom shall be an independent director.



### **Audit and Risk Committee**

The Audit Committee, which may be organized from time to time upon determination of the Board, checks all financial reports against compliance with the internal financial management handbook, pertinent accounting standards, and regulatory requirements; performs oversight financial management functions; pre-approves all audit plans, performs direct interface functions with the external and external auditors of the Company; elevates to international standards the accounting and auditing processes and practices of the Company; and develops a transparent financial management system that will ensure the integrity of internal control activities throughout the Company. The Company's Audit Committee shall have at least three members, one of whom shall be an independent director. Each member of the Audit Committee is required to have an adequate understanding or competence at most of the Company's financial management systems and environment.

Within 5 days from Listing, the Board of Directors shall appoint the members of its Audit Committee, which shall be composed of at least three members of the Board, at least two of whom shall be independent directors (one of whom shall be the Chairman), with all members preferably with accounting and finance backgrounds and one with audit experience pursuant to the Manual. Each member of the Audit Committee shall have adequate understanding of the Company's financial management systems and environment. The Audit Committee shall be tasked to prepare the Audit Committee Charter which shall contain govern the conduct of its meetings, the scope of its authority and responsibilities on financial reporting and disclosures, risk management, internal control, internal audit, external audit and compliance, among others. Upon approval by the Audit Committee of its Audit Committee Charter, the same shall be submitted for the approval of the Board of Directors of the Company. Within one year from Listing, the Board of Directors shall assess the performance of the Audit Committee, as prescribed by and pursuant to the existing guidelines of the SEC.

### **Finance Committee**

The Finance Committee, prior to each annual stockholders' meeting, conducts an annual financial review and operations review, which covers the financial activities of the Corporation during the immediately preceding year. The Finance Committee shall fix its own rules of procedure. The Company's Finance Committee shall have at least three members.

## PRINCIPAL SHAREHOLDERS

As of the date of this Prospectus, the stockholders of the Company, their respective number of Common Shares and their corresponding percentage ownership in the Company out of the total Common Shares outstanding, are as follows:

Name of Stockholder	Class of Securities	Number of Shares	% of Outstanding Common Shares
Nico Jose S. Nollo	Common	441,665,960	32.10%
Fernando Jude F. Garcia	Common	441,665,960	32.10%
Raymond Gerard S. Racaza	Common	441,665,960	32.10%
Jose Vicente T. Colayco	Common	22,750,320	1.65%
Alfonso Antonio Tagaysay	Common	22,750,320	1.65%
Vanessa V. Barrameda	Common	2,000,000	0.15%
Ella C. Malapitan	Common	2,000,000	0.15%
Estrelita B. Laban	Common	1,000,000	0.07%
Sarah Maese M. Espina	Common	500,000	Nil
Wilfredo Oposa Racaza	Common	1,060	Nil
Mercedita S. Nollo	Common	1,060	Nil
Jonathan Gerard A. Gurango	Common	10	Nil
Alvin D. Lao	Common	10	Nil
<b>Total</b>		<b>1,376,000,660</b>	<b>100%</b>

## FOREIGN AND LOCAL INVESTORS OWNERSHIP

As of the date of this Prospectus, the Company is 100% owned by Filipino citizens.

## MINIMUM PUBLIC OWNERSHIP

Pursuant to the Offer, the Company will offer to the public the Offer Shares representing 20% of its issued and outstanding capital stock after the Offer. Considering that the Company will offer at least 10% of its issued and outstanding capital stock, the Company reasonably foresees that, on or before the Listing Date, the Company will be in compliance with the minimum public ownership requirements of the PSE.

## BACKGROUND OF TOP 20 STOCKHOLDERS

### **Nico Jose S. Nollo**, *President, Chief Executive Officer and Chairman of the Board*

Mr. Nico Jose S. Nollo is the President, Chief Executive Officer and Chairman of the Board of the Company. He is also the Chairman of Fluxion, a subsidiary of the Company. A recognized pioneer in the Philippine ICT industry, Mr. Nollo first started in the consumer technology sector when he founded PinoyExchange.com in 1999. Since then, he has founded, funded and sat on the board of directors of a number of technology companies such as Rappler.com, Gurango Software and MyRegalo.com. Mr. Nollo is also the founding director and former president of the IMMAP, the founding director of DCOM and presently sits as a member of the Entrepreneurs' Organization (EO), Philippine chapter.

Mr. Nollo holds a Bachelor of Science degree in Management from Ateneo de Manila University in Loyola Heights, Quezon City.

### **Raymond Gerard S. Racaza**, *Director, Treasurer and Chief Operating Officer*

Mr. Raymond Gerard S. Racaza is a co-founder, Chief Operating Officer and Treasurer of the Company. He is responsible for the overall business operations of the Company, such as carrier-relationship management, marketing, product design, and profit and loss responsibility for the core Company services. Under his leadership, the Company grew from a start-up company to become one of the top technology companies in the country. Mr. Racaza spearheaded the launch of multiple Xurpas projects including *Gentxt*, *Jollibee Bee Hottah*, *Petron Tank Up and Text*, and the Company's big campaigns.

Before founding Xurpas, Mr. Racaza was the Senior Solutions Consultant of Wireless Internet Solutions, Inc. He was also part of the original development team of iAyala that built the first Wireless Application Protocol (WAP) site in the Philippines.

Mr. Racaza holds a Bachelor of Science degree in Computer Science, Major in Information Technology from De La Salle University.

**Fernando Jude F. Garcia**, *Director, Chief Technology Officer and Corporate Secretary*

Mr. Fernando Jude F. Garcia is a co-founder, Chief Technology Officer and Corporate Secretary of the Company. He created the Griffin Platform of the Company which is the mobile consumer content gateway and platform for all of the Company's mobile consumer content products and services. He also created the Company's modular middleware system that can easily integrate with any modern billing gateway. He is the chief engineer responsible for the Company's software architecture and systems integration. Examples of such systems and protocols are the following: for SMS (CIMD2/EMI-UCP/SMPP), for MMS (EIAF/MM7), for Voice Services (SIP), for Billing/IN (Diameter/UCIP/ParlayX2.1) and Security (IPSEC). Mr. Garcia directly manages and supervises the technology team of the Company. Before joining the Company, Mr. Garcia was part of iAyala as a software developer, during which time he learned Java, web development, data base programming and Unix/Linux administration.

Mr. Garcia holds a Bachelor of Science degree in Applied Physics from the University of the Philippines in Diliman, Quezon City.

**Wilfredo O. Racaza**, *Director*

Mr. Wilfredo O. Racaza is a director of the Company. He has 45 years of Marketing and Finance experience under his belt. He was the head of New Business Development in Mobil Oil Philippines for 15 years. Mr. Racaza is currently an insurance executive in Manulife Financial Philippines for the last 29 years up to present. He has garnered numerous accolades and awards. Among the highlights are multiple Branch of the Year awards, and consistent agency sales awards. He has been a consistent awardee in the General Agents and Managers Association (GAMA) of the Philippines from 2003 to 2014.

Mr. Racaza holds a Bachelor of Science in Commerce Degree Major in Accountancy from Xavier University in Cagayan de Oro City.

**Mercedita S. Nollado**, *Director*

Ms. Mercedita S. Nollado is currently a director of Bank of the Philippine Islands, BPI Family Savings Bank and BPI Capital Corporation. She is also a director of Anvaya Golf and Nature Club, Inc. She is Chairman of BPI Investment Management Corporation. She is also a director of Honda Cars Makati, Inc., Automotive Isuzu Dealership, Iconic Dealership, Inc. and Ayala Automotive Holdings.

Ms. Nolledo is also a member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc. She has served as a director of Cebu Holdings, Inc. from 1993 to 2006 and of Ayala Corporation from 2004 to 2010.

Ms. Nolledo was formerly Corporate Secretary and General Counsel of the Ayala Group of Companies and the Senior Managing Director of the Ayala Corporation. She served as Executive Vice President, director and Corporate Secretary of Ayala Land, Inc. and as the firm's Treasurer.

Ms. Nolledo placed 2<sup>nd</sup> during the Certified Public Accountant exams in 1960 and also placed 2<sup>nd</sup> during the bar exams in 1965. She holds a Bachelor of Science degree in Business Administration, magna cum laude, from the University of Philippines. Ms. Nolledo holds a Bachelor of Laws (L.L.B.) degree, cum laude, from the University of the Philippines.

**Jonathan Gerard A. Gurango, *Independent Director***

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

Mr. Gurango holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines, Diliman, Quezon City. He also obtained his Bachelor of Science degree in Electrical Engineering from the University of Washington.

**Alvin D. Lao, *Independent Director***

Alvin D. Lao is the Executive Vice President and the Chief Financial Officer of D&L Industries, Inc. He is also the Chief Financial Officer and Treasurer of Chemrez Technologies Inc. He serves as Director of Axis REIT, a real estate investment trust listed in Malaysia and as a Vice President of the Technology Club of the Philippines (Philippine alumni of the Massachusetts Institute of Technology), and is a past president and current member of the Entrepreneurs Organization (EO, Philippine Chapter). He is also a member of the Financial Executives Institute of the Philippines (FINEX) and the Wallace Business Forum. He is a director of Enderun Colleges, Gurango Software Corporation, First in Colours, Incorporated, D&L Polymer and Colours, Incorporated, FIC Tankers Corporation, Ecozone Properties, Inc., Anonas LRT Property and Dev't Corp., and Hotel Acropolis, Inc.

He graduated from the University of Western Australia with a Bachelor of Science degree in Information Technology (Honors). He also holds a Masters degree in Business Administration from the MIT Sloan School of Management.

**Jose Vicente T. Colayco, *Chief Business Development Officer***

Mr. Jose Vicente T. Colayco is the Chief Business Development Officer of the Company. Before he joined the Company, he was the co-founder and co-managing director of Digital Storm, a developer of on-line casual game platforms. Mr. Colayco was also the President of 888 Creative Studios (a subsidiary of Information Gateway, Inc.) from 2004 to 2010, during which time he led the management of relationships with foreign and local licensors from the music, motion picture and game industries. Mr. Colayco also served as Managing Director for EMI Music Philippines and Marketing Director for Sony Music Philippines.

Mr. Colayco holds a Bachelor of Arts degree in Philosophy and Religious Studies from Brown University, Magna Cum Laude. He obtained his Masters in Business Administration from Harvard Business School in Boston, Massachusetts.

**Alfonso A. Tagaysay, *Chief Marketing Officer***

Mr. Alfonso A. Tagaysay is the Chief Marketing Officer of the Company. He has 14 years of experience in the mobile consumer content industry, managing mobile companies operating in various South East Asian markets: Philippines, Indonesia, Malaysia and Bangladesh.

Before joining the Company, Mr. Tagaysay was the co-founder and co-managing director of Digital Storm, Inc. From 2004 to 2010, he was a Managing Director of Information Gateway. From 2000-2004, he was with Globe Telecom as Director. Prior to mobile, he worked in advertising with McCann Erickson from 1997 to 2000.

Mr. Tagaysay holds a Bachelor of Arts, Management Economics degree from Ateneo de Manila University in Loyola Heights, Quezon City.

**Vanessa V. Barrameda**

Ms. Vanessa V. Barrameda is the Head of Mobile Marketing of the Company. She leads a team of marketing executives who conceptualizes, manages, monitors and evaluates mobile campaigns and services. Prior to Xurpas, Ms. Barrameda carried with her six years of combined experience in the fields of advertising, accounts management and media sales and marketing. She had prior stints in ABS-CBN and 141 Worldwide before joining the Company in 2007.

Ms. Barrameda holds a Bachelor of Arts, Broadcast Communication degree, *Magna Cum Laude*, from the University of the Philippines, Diliman, Quezon City.

**Ella C. Malapitan**

Ms. Ella C Malapitan has been the Head of Technical Operations of Xurpas for the last 12 years. An Oracle-certified Java Developer herself, Ella manages a team of developers, quality assurance experts and systems administrators for local and international markets where Xurpas is present in. She served a key role in enabling Xurpas' biggest and most successful SMS promos for both brand partners and telecom operators in the last decade alone.

Ms. Malapitan holds a Bachelor of Science, Computer Science degree from the University of the Philippines, Los Banos, Laguna.

**Estrelita B. Laban**

Ms. Estrelita B. Laban is the Head of Administration and Finance of the Company for the last eight years. Concurrently, she also acts as the Human Resources Manager of the Company. Prior to joining the Company, Ms. Laban carried with her 27 years of combined experience in the fields of Accounting, Finance and Auditing.

Ms. Laban was previously connected with the Accounting Departments of Phil-China Trade Export Business (HongKong) from 1985 to 1988, PGH Foundation Inc. from 1984 to 1985 and Food Terminal Inc. from 1980 to 1984.

Ms. Laban holds a Bachelor of Science in Commerce degree, Major in Accounting, from Rizal College.

**Sarah Maese M. Espina**

Ms. Sarah Espina is the Head of Content for Xurpas. She manages a team of content developers and graphic artists who help conceptualize and create content for mobile products and services for Globe, Smart, and Sun. She helped launch over 300 content services since she started in 2004, including infotext, MMS wallpapers, stickers, ringtones, ringback tones, and text tones.

Ms. Espina has a Bachelor of Arts degree, Major in Literature, from De La Salle University in Manila.

## **DESCRIPTION OF THE COMMON SHARES**

### **SHARE CAPITAL AND MARKET INFORMATION**

As of the date of this Prospectus, the Company has an authorized capital stock of ₱500,000,000 comprised of 5,000,000,000 Common Shares with par value of ₱0.10 per Common Share. As of the date of this Prospectus, the Company has issued and outstanding 1,376,000,660 Common Shares.

On July 10, 2014, the Corporation declared stock dividends in the aggregate amount of ₱61,250,000, payable to its stockholders of record as of July 10, 2014 and based on their respective shareholdings as of the said date. To accommodate the Common Shares to be issued pursuant to the foregoing stock dividend declaration (amounting to 61,250,000 Common Shares) and in preparation of the Offer, the Company filed on August 26, 2014 an application for approval by the SEC for an increase in its authorized capital stock from ₱255,000,000.00 divided into 255,000,000 Common Shares with a par value of ₱1.00 per share to ₱500,000,000.00 divided into 500,000,000 Common Shares with a par value of ₱1.00 per share.

On August 11, 2014, the Company issued a total of 5,100,064 Common Shares to certain executives and employees, namely, Messrs. Jose Vicente T. Colayco and Alfonso A. Tagaysay and Mesdames Vanessa V. Barrameda, Ella C. Malapitan, Estrelita B. Laban and Sarah Maese M. Espina. On the same date, the Company likewise issued one Common Share each to its two independent directors, Messrs. Jonathan Gerard A. Guarango and Alvin D. Lao.

On September 11, 2014, the SEC approved the Company's application for approval of the decrease in the par value of the Common Shares from ₱1.00 per Common Share to ₱0.10 per Common Share. No new Common Shares were issued as part of or following the foregoing approval.

The Offer Shares, comprising of 344,000,000 Common Shares, will be covered by the Offer to the public, and 1,720,000,660 Common Shares (or 100% of the Company's issued Common Shares including the Offer Shares) will be covered by the Listing. Both the Offer Shares and Common Shares are expected to be traded after the Listing subject to applicable lock-up restrictions imposed by the PSE.

The Common Shares are not traded in any market nor are they subject to outstanding options or warrants to purchase, or securities convertible into Common Shares of the Company. Prior to the Offer, there has been no public trading market for any of the Company's Common Shares.

### **LISTING AND PUBLIC OFFER**

The Company has applied (and for this purpose has submitted an application for Listing with the PSE on August 27, 2014) for the Listing of the Offer Shares on the SME Board through the Offer, which application has been approved as of the date of this Prospectus. In connection with the Listing and pursuant to the Offer, the Company will be offering 344,000,000 Offer Shares to the public for subscription at an Offer Price of ₱3.97 per Common Share. After the completion of the Offer, the Company will have a total of 1,720,000,660 issued and outstanding Common Shares. Upon approval of the Listing by the PSE, the Common Shares will be listed and traded under the stock symbol "X" on the SME Board of the PSE.

### **HOLDERS**

As of the date of this Prospectus, the Company has nine stockholders. The following sets out the shareholdings of the aforementioned stockholders:

Name of Stockholder	Citizenship	Shareholdings	
		Number of Shares	% of Outstanding Shares
Nico Jose S. Nollado	Filipino	441,665,960	32.10%
Fernando Jude F. Garcia	Filipino	441,665,960	32.10%
Raymond Gerard S. Racaza	Filipino	441,665,960	32.10%
Jose Vicente T. Colayco	Filipino	22,750,320	1.65%
Alfonso Antonio Tagaysay	Filipino	22,750,320	1.65%
Vanessa V. Barrameda	Filipino	2,000,000	0.15%
Ella C. Malapitan	Filipino	2,000,000	0.15%
Estelita B. Laban	Filipino	1,000,000	0.07%
Sarah Maese M. Espina	Filipino	500,000	0%
Wilfredo O. Racaza	Filipino	1,060	0%
Mercedita S. Nollado	Filipino	1,060	0%
Jonathan Gerard A. Gurango	Filipino	10	0%
Alvin D. Lao	Filipino	10	0%
<b>Total Outstanding</b>		<b>1,376,000,660</b>	<b>100.00%</b>

## DIVIDENDS

The Company has declared cash and property dividends to its stockholders owning Common Shares from the time of its incorporation. For a description of the history of dividend declarations by the Company, please see “Dividends and Dividend Policy” on page 37 of this Prospectus.

Apart from legal restrictions governing the declaration of dividends, there are no restrictions that limit the Company’s ability to pay dividends on the Common Shares whether currently or in the future.

## RIGHTS RELATING TO THE COMMON SHARES

### Voting Rights

Each holder of a Common Share has full voting rights. At each meeting of the Company’s stockholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each Common Share standing in his or her name in the books of the Company at the time of closing of the transfer books for such meeting.

### Dividend Rights

The rights of holders of the Common Shares to dividends are subject to the legal restrictions governing the declaration of dividends.

Aside from what is stated in the Company’s By-Laws and as provided in existing laws, the Company does not have a specific dividend policy. The Company’s By-laws provide that dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them, as often and at such times as the Board may determine and in accordance with law and applicable rules and regulations. No fractional Shares shall be issued from any declaration of stock dividends.

### Pre-Emptive Rights

The Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation, which entitle them to subscribe to all issues or other disposition of shares of any class by the corporation in proportion to their respective shareholdings, subject to certain exceptions. A Philippine corporation may provide for the exclusion of these pre-emptive rights in its articles of incorporation. The Articles of Incorporation of the Company currently contain such a denial of pre-emptive rights on all classes of shares issued by the Company and, therefore, further issues or disposition of shares of the Company (including treasury shares) can be made without offering such shares on a pre-emptive basis to the Company’s existing shareholders.



## **Derivative Rights**

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs against the corporation or where necessary to vindicate corporate rights as, for example, where the directors themselves are the malefactors.

## **Appraisal Rights**

The Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence;
- the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;
- a merger or consolidation; and
- an investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

In these circumstances, the dissenting shareholder may require the corporation to purchase its shares at a fair value, which in default of agreement is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The designated commercial courts of the Regional Trial Court in a given city or province will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The remedy will only be available if the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders. From the time the shareholder makes a demand for payment until the corporation purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the share.

## **Restriction on Issuance and Disposal of Shares**

Under the PSE Listing Rules, an applicant company that applies to list to the SME Board through a primary offering shall be subject to the lock-up requirements prescribed by the PSE.

In particular, Part E, Section 2 of the PSE Listing Rules for the Main and SME Boards of the PSE provide that an applicant company shall cause its existing stockholders to refrain from selling, assigning or in any manner disposing of their shares for a period of one year from listing of such shares.

In addition, if there is any issuance or transfer of shares (*i.e.*, private placements, asset for shares swap or a similar transaction) or instruments which lead to issuance of shares (*i.e.*, convertible bonds, warrants or a similar instrument) done and fully paid for within six months prior to the start of the offering period, and the transaction price is lower than that of the offer price, all shares availed of shall be subject to a lock-up period of at least one year from listing of the aforesaid shares.

In compliance with the PSE Listing Rules, the foregoing lock-up requirements have been incorporated by express reference in Article Seventh of the Company's Articles of Incorporation.

All of the Company's existing stockholders are covered by the foregoing lock-up restrictions.

Likewise, considering that, within six months prior to the offering period, all of the Company's existing stockholders were issued Common Shares at less than the initial listing price of ₱3.97, the

Common Shares they have acquired are likewise subject to the lock-up restrictions for a period of one year from the date when such Common Shares are listed on the SME Board of the PSE.

To implement the lock-up restrictions of the PSE, the Company and all of its existing shareholders have entered into an escrow agreement with Security Bank Corporation – Trust Division, who shall act as escrow agent for this purpose.

### **Limits on Foreign Ownership**

The Company is not engaged in any nationalized or partly-nationalized activity, and is not subject to any statutory limits on foreign capital ownership.

### **Recent Issuance of Exempt Securities**

On May 2, 2014, the Company issued a total of 6,750,000 Common Shares (at the previous par value of ₱1.00 per share) to Messrs. Nico Jose S. Nollado, Fernando Jude F. Garcia and Raymond Gerard S. Racaza for an aggregate subscription price of ₱6,750,000.

On June 25, 2014, after approval by the SEC of the increase of the Company's authorized capital stock from ₱10,000,000 to ₱225,000,000, the Company issued the Common Shares to the persons and in the amounts indicated below pursuant to the foregoing capital increase and in implementation of the distribution of stock dividends declared by the Company on May 5, 2014:

<b>Name of Stockholder</b>	<b>Issued Shares (at the previous par value of ₱1.00 per share)</b>	<b>Subscription Price Per Share (₱)</b>
Nico Jose S. Nollado	20,416,634	P20,416,634
Fernando Jude F. Garcia	20,416,634	20,416,634
Raymond Gerard S. Racaza	20,416,634	20,416,634
Wilfredo O. Racaza	49	49
Mercedita S. Nollado	49	49
<b>Total</b>	<b>61,250,000</b>	<b>P61,250,000.00</b>

On July 10, 2014, the Corporation declared stock dividends in the aggregate amount of ₱61,250,000, payable to its stockholders of record as of July 10, 2014 and based on their respective shareholdings as of the said date. To accommodate the Common Shares to be issued pursuant to the foregoing stock dividend declaration and in preparation of the Offer, the Company filed on August 26, 2014 an application for approval by the SEC for an increase in its authorized capital stock from ₱255,000,000.00 divided into 255,000,000 Common Shares with a par value of ₱1.00 per share to ₱500,000,000.00 divided into 500,000,000 Common Shares with a par value of ₱1.00 per share.

Following approval by the SEC of the foregoing increase on September 2, 2014, a total of 61,250,000 Common Shares (at the previous par value of ₱1.00 per share) were issued to the following stockholders of the Company:

<b>Name of Stockholder</b>	<b>Issued Shares (at the previous par value of ₱1.00 per share)</b>	<b>Subscription Price Per Share (₱)</b>
Nico Jose S. Nollado	20,416,634	₱20,416,634
Fernando Jude F. Garcia	20,416,634	₱20,416,634
Raymond Gerard S. Racaza	20,416,634	₱20,416,634
Wilfredo O. Racaza	49	₱49
Mercedita S. Nollado	49	₱49
<b>Total</b>	<b>61,250,000</b>	<b>₱61,250,000.00</b>

On August 11, 2014, the Company issued a total of 5,100,064 Common Shares (at the previous par value of ₱1.00 per share) to certain executives and employees, including Messrs. Jose Vicente T. Colayco and Alfonso A. Tagaysay and Mesdames Vanessa V. Barrameda, Ella C. Malapitan, Estrelita B. Laban and Sarah Maese M. Espina, as follows:

<b>Name of Stockholder</b>	<b>Issued Shares (at the previous par value of ₱1.00 per share)</b>	<b>Subscription Price Per Share (₱)</b>
Jose Vicente T. Colayco	2,275,032	2,275,032
Alfonso A. Tagaysay	2,275,032	2,275,032
Vanessa V. Barrameda	200,000	200,000
Ella C. Malapitan	200,000	200,000
Estrelita B. Laban	100,000	100,000
Sarah Maese M. Espina	50,000	50,000
<b>Total</b>	<b>5,100,064</b>	<b>₱5,100,064</b>

On the same date, the Company likewise issued one Common Share (at the previous par value of ₱1.00 per share) each to its two independent directors, Messrs. Jonathan Gerard A. Guarango and Alvin D. Lao, in each case, at a subscription price of ₱1.00 per Common Share.

As of the date of this Prospectus, all of the Company's outstanding Common Shares have been fully paid.

The issuance or sale of shares of the capital stock of a corporation to fewer than 20 persons in the Philippines during any 12-month period is exempt from registration under the SRC.

#### **Change of Control**

There is no provision in the Company's Articles of Incorporation and By-laws which may delay, deter, or prevent a change in control in the Company.

#### **Accounting and Auditing Requirements**

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. Corporations whose shares are listed on the PSE are also required to file quarterly financial statements (for the first three quarters) with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a balance sheet as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to the Company's shareholders at every annual meeting a financial report of the operations of the Company for the preceding year. This report is required to include audited financial statements.

# THE PHILIPPINE STOCK MARKET

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Underwriter, or any of their respective subsidiaries, affiliates or advisers in connection with sale of the Offer Shares.*

## BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the SEC granted the PSE Self-Regulatory Organization status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. As of the date of this Prospectus, the PSE has an authorized capital stock of ₱120,000,000, of which ₱61.058 million is subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a “Trading Participant Certificate” was immediately conferred on each member-broker allowing the use of the PSE’s trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, mining and oil sectors, companies are listed either on the PSE’s Main Board or the SME Board. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PSEi, which as of the date hereof reflects the price movements of 30 selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. With the increasing calls for good corporate governance, PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

## Selected Stock Exchange Data

The table below sets forth movements in the composite index from 1995 to September 30, 2014 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

	<b>Composite Index at Closing</b>	<b>Number of Listed Companies</b>	<b>Aggregate Market Capitalization</b>	<b>Combined Value of Turnover</b>
Calendar Year			<i>(in ₱ billions)</i>	
1995 .....	2,594.2	205	1,545.7	379.0
1996 .....	3,170.6	216	2,121.1	668.9
1997 .....	1,869.2	221	1,261.3	588.0
1998 .....	1,968.8	221	1,373.7	378.9

	<b>Composite Index at Closing</b>	<b>Number of Listed Companies</b>	<b>Aggregate Market Capitalization</b>	<b>Combined Value of Turnover</b>
Calendar Year			<i>(in ₱ billions)</i>	
1999 .....	2,142.9	223	1,936.5	668.8
2000 .....	1,494.5	226	2,576.5	58.61
2001 .....	1,168.1	228	2,143.3	407.2
2002 .....	1,014.4	232	2,083.2	780.9
2003 .....	1,442.4	235	2,973.8	357.6
2004 .....	1,822.8	236	4,766.2	206.6
2005 .....	2,096.0	237	5,948.4	383.5
2006 .....	2,982.5	240	4,277.8	1,145.3
2007 .....	3,621.6	244	7,977.6	1,338.3
2008 .....	1,872.9	246	4,069.2	763.9
2009 .....	3,052.7	248	6,029.1	994.2
2010 .....	4,201.1	253	8,866.1	1,207.4
2011 .....	4,372.0	253	8,697.0	1,422.6
2012 .....	5,812.7	268	10,850	1,420
2013 .....	5,889.8	257	11,931.3	2,546.3
September 30, 2014 .....	7,283.0	261	14,284.4	1,541.2

*Source: Philippine Stock Exchange, Inc.*

## TRADING

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment for purchases of listed securities must be made by the buyer on or before the third trading day after the trade.

Trading on the PSE starts at 9:30 a.m. and ends at 3:20 p.m. with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays when the BSP clearing house is closed.

Minimum trading lots range from five to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50 per cent, or down by 50 per cent, in one day (based on the last traded price or adjusted closing price, as the case may be), or the maximum allowable price difference between an update in the Last Traded Price ("LTP") of a given Security and its preceding LTP that is equal to a percentage set by the PSE based on its trade frequency is breached, the price of that security is automatically frozen by the PSE, unless there is an official statement from the relevant company or a Government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the issuer is disseminated, subject again to the trading band.

The maximum allowable price difference between an update in the LTP of a given security and its preceding LTP percentages are as follows: Stocks that traded 20 times or less in the past six (6) months have a threshold of 20 per cent; stocks that traded 500 times or less but greater than 20 times in the past six (6) months have a threshold of 15 per cent; stocks that traded more than 500 times in the past six (6) months have a threshold of 10 per cent.

## **SETTLEMENT**

The Securities Clearing Corporation of the Philippines (“SCCP”) is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (a) synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also PSE Brokers; (b) guaranteeing the settlement of trades in the event of a Trading Participant’s default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund, and (c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after the transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the PDTC’s book-entry system. Each PSE Broker maintains a Cash Settlement Account with one of the two existing settlement banks of SCCP, which are Banco de Oro Unibank, Inc. and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement (“CCCS”) on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets “buy” and “sell” transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

## **CENTRAL DEPOSITORY**

In 1995, the Philippine Depository and Trust Corporation (formerly the Philippine Central Depository, Inc.) was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On 16 December 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders’ meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Rizal Commercial Banking Corporation and Banco de Oro Unibank, Inc.

In order to benefit from the book-entry system, securities must be immobilized in the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation (“PCD Nominee”), a corporation wholly owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. “Immobilization” is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the

corresponding transfer of beneficial ownership of the immobilized shares in the account of PCNC through the PDTC participant will be recorded in the Company's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system and, with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate clear funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP CCCS system, in accordance with the PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporation's books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled confirmation advices is issued in the name of PCD Nominee Corp. to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominees' name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agent's books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing the broker from its current "de facto" custodianship role.

#### **AMENDED RULE ON LODGEMENT OF SECURITIES**

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirements, actual listing and trading of securities on the scheduled

listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the Exchange shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the SEC.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The Rights Shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the transfer agent of the companies shall no longer issue a certificate to the PCD Nominee Corporation (“PCNC”) but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.

For existing listed companies, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCNC Jumbo Certificates and upon such advice the PDTC shall surrender all PCNC Jumbo Certificates to the transfer agent for cancellation. The transfer agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the issuer’s registry as of the confirmation date.

## **ISSUANCE OF CERTIFICATED SHARES**

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply to PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of certificated shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of beneficial ownership in the shares to certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until certificated shares shall have been issued by the relevant company’s transfer agent.



## PHILIPPINE TAXATION

*The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Common Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Common Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Common Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Common Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment of a holder of Common Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of Common Shares. Prospective holders of the Common Shares are urged to consult their own tax advisors as to the particular tax consequences of the ownership and disposition of the Common Shares, including the applicability and effect of any local or foreign tax laws. As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.*

### TAX ON DIVIDENDS

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Common Shares at the rate of 10%, which tax shall be withheld by the Company.

Non-resident alien individuals engaged in a trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Common Shares at the rate of 20%. A non-resident alien individual who comes to the Philippines and stays for an aggregate period of more than 180 days during any calendar year is considered engaged in a trade or business in the Philippines. Non-resident alien individuals not doing business in the Philippines are subject to a final withholding tax on dividends derived from the Common Shares at the rate of 25% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individuals.

Dividends derived by domestic corporations (*i.e.*, corporations created or organized in the Philippines or under its laws) and resident foreign corporations from the Common Shares shall not be subject to tax.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30% rate for dividends paid to non-resident foreign corporations that are domiciled in countries which do not have tax treaties with the Philippines may be reduced to a special 15% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign-sourced dividends; or
- the country in which the non-resident foreign corporation is domiciled allows a credit equivalent to 15% against the tax due from the non-resident corporation taxes which are deemed to have been paid in the Philippines.

The Bureau of Internal Revenue ("BIR") has prescribed, through an administrative issuance, procedures for availment of tax treaty relief. Subject to the approval by the BIR of a corporation's application for tax treaty relief, the corporation will withhold taxes at a reduced rate on dividends paid to a non-resident holder of the Common Shares if such non-resident holder provides the corporation with proof of residence and, if applicable, individual or corporate status. Proof of residence for an individual consists of a certification from his embassy, consulate or other proper authority as to his citizenship and residence. Proof of residence and corporate status for a corporation consists of

authenticated copies of its articles of association, or other equivalent certifications issued by the proper government authority, or any other official document proving residence. If the regular rate of tax is withheld by the corporation instead of the reduced rates applicable under a treaty, the non-resident holder of the Common Shares may file a claim for a refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

The term “non-resident holder” means a holder of the Common Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- should a tax treaty be applicable, whose ownership of the Common Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

## **SALE OR OTHER DISPOSITION OF THE COMMON SHARES**

Sales, exchanges or other dispositions of the Common Shares which are effected through the PSE by persons other than a dealer in securities are subject to a stock transaction tax at the rate of 0.5% based on the gross selling price of the Common Shares. This tax is required to be collected by and paid to the Philippine government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Notwithstanding its classification as a percentage tax, exemptions from capital gains tax may also apply to the stock transaction tax under the terms of some tax treaties.

In addition, a value-added tax of 12% is imposed on the commission earned by the PSE registered broker, which tax is generally passed on to the client.

Subject to applicable tax treaty rates, a capital gains tax of 5% on the net capital gains realized during the taxable year, not in excess of ₱100,000, and 10% on the net capital gains realized during the taxable year, in excess of ₱100,000, is imposed on sales, exchanges or other dispositions of shares of stock not traded through a local stock exchange.

The Bureau of Internal Revenue has effectively expanded the application of the 5%/10% capital gains tax by extending it even to trades through the stock exchange of shares of listed companies which do not maintain their public ownership requirement. The BIR, in a letter dated December 28, 2010 addressed to the SEC, stated that it would “strictly impose the 5%/10% capital gains tax” for trades in listed companies “who will not maintain their public ownership requirement”, said public ownership requirement being the 10% to 33% public ownership levels (based on the listed company’s market capitalization) required for an initial public offering or IPO. This BIR letter was referred to the PSE by the SEC on January 3, 2011. The PSE subsequently issued a memorandum dated January 20, 2011 in response to the SEC on the BIR’s statements. The PSE noted that the Tax Code imposes a stock transaction tax of ½ of 1% of the gross selling price or gross value in money of shares of stock listed and traded on the PSE, without qualification and that the power of the Secretary of Finance to promulgate rules and regulations implementing the Tax Code should be confined to the details for the implementation of the law and does not include the power to amend the law.

Regardless, on November 7, 2012, the BIR issued regulations which provided that the tax treatment of sales or other dispositions of shares of stock of publicly listed companies which fail to meet the minimum public ownership after December 31, 2012 shall be subject to the 5%/10% capital gains tax and the documentary stamp tax.

## **DOCUMENTARY STAMP TAX**

The original issue of shares is subject to documentary stamp tax of ₱1.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of ₱0.75 for each ₱200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp.

## **ESTATE AND GIFT TAXES**

The transfer of the Common Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer Common Shares by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the total net gifts made during the calendar year exceed ₱100,000. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as Common Shares of stock, (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

## **LEGAL MATTERS**

### **LEGAL MATTERS**

Certain legal matters under Philippine law relating to the Offer and the Listing were passed upon by Javier Santiago Torres & Gorriceta Law Office, the independent legal and tax counsel engaged by the Company for the Offer.

Javier Santiago Torres & Gorriceta does not have and will not receive any direct or indirect interest in the Company or in any of the Company's securities (including options, warrants or rights thereto) pursuant to, or in connection with the Offer Shares, and has not acted as promoter, underwriter, voting trustee, or as the Company's employee.

## INDEPENDENT AUDITORS

The consolidated financial statements of the Company as at and for the years ended December 31, 2013, 2012 and 2011 were audited by SGV & Co., independent auditors, in accordance with Philippine Standards on Auditing (“PSA”).

SGV & Co. has acted as the Company’s independent auditors since 2008. Jessie D. Cabaluna is the current audit partner for the Company and has served as such since 2013. The Company has not had any material disagreement on accounting and financial disclosure with SGV & Co. for the periods stated above or during interim periods. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities of the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

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

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by SGV & Co.:

In Philippine pesos	2012	2013
Audit and Audit Related Fees	₱292,300	₱306,300
Tax Fees	—	—
All other fees	—	—

The Audit and Audited Related Fees refers to the professional services rendered by SGV & Co. for audit of the Company’s annual consolidated and separate financial statements or services that are normally provided in connection with statutory and regulatory filings for the said fiscal years.

### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There are no disagreements with the independent auditors of the Company on accounting and financial disclosure.

### **Tax Fees**

There were no tax-related services rendered by SGV & Co.

### **All Other Fees**

There were no other professional services rendered by SGV & Co.

**XURPAS INC.**

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

**SOLE ISSUE MANAGER AND SOLE BOOKRUNER**

SB Capital Investment Corporation  
18/F Security Bank Centre,  
6776 Ayala Avenue,  
Makati City

**LEAD UNDERWRITER**

SB Capital Investment Corporation  
18/F Security Bank Centre,  
6776 Ayala Avenue,  
Makati City

**CO-LEAD UNDERWRITERS**

First Metro Investment Corporation  
45<sup>th</sup> Floor, GT Tower International  
Ayala Avenue corner HV Dela Costa Street  
Makati City

UniCapital Incorporated  
3<sup>rd</sup> Floor, Majalco Building  
Benavidez corner Trasierra Streets  
Legaspi Village, Makati City

**PARTICIPATING UNDERWRITERS**

Philippine Commercial Capital, Inc.  
6<sup>th</sup> Floor, PCCI Corporate Center  
118 L.P Leviste Street  
Salcedo Village, Makati City

Abacus Capital & Investment Corporation  
Unit 2902-D East Tower, Philippine Stock Exchange Centre  
Exchange Road, Ortigas Center  
Pasig City

PentaCapital Investment Corporation  
10<sup>th</sup> Floor, ACT Tower  
135 Sen. Gil Puyat Avenue  
Salcedo Village, Makati City

**LEGAL COUNSEL TO XURPAS INC.**

Javier Santiago Torres & Gorriceta  
2F and 15F Strata 2000 Building, F. Ortigas Jr. Road,

Ortigas Center, Pasig City

**LEGAL COUNSEL TO THE SOLE ISSUE MANAGER AND SOLE BOOKRUNNER  
AND THE LEAD UNDERWRITER**

Picazo Buyco Tan Fider & Santos  
Liberty Center, 104 H.V. dela Costa Street  
Salcedo Village, Makati City

**INDEPENDENT AUDITORS**

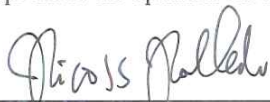
SyCip Gorres Velayo & Co.  
6760 Ayala Avenue, Makati City

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

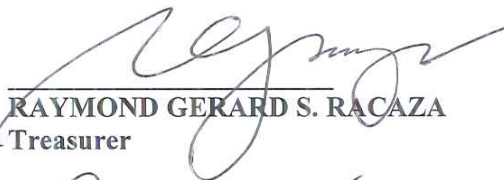
The management of XURPAS INC. is responsible for the preparation and fair presentation of the **consolidated** financial statements for the period as at June 30, 2014 and December 31, 2013, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 or Trustees reviews and approves the **consolidated** 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 **consolidated** 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 and President



**RAYMOND GERARD S. RACAZA**  
Treasurer



**FERNANDO JUDE F. GARCIA**  
Corporate Secretary

Signed this 26<sup>th</sup> day of August, 2014



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

AUG 26 2014

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at  
MAKATI, 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	

ctdr

Doc. No. 226 ;  
Page No. 47 ;  
Book No. 1 ;  
Series of 2014.

**M.A. CHRISTINE FEL P. DE VERA**

Appointment No. M-521

Notary Public for Makati City

Until December 31, 2015

Penthouse, Liberty Center

104 H.V. dela Costa Street, Makati City

Roll of Attorneys No. 62659

PTR No. 4235527 / Makati City / 01-09-2014

IBP No. 947301 / Laguna / 01-07-2014

## Xurpas, Inc. and Subsidiary

Consolidated Financial Statements  
As of June 30, 2014 and December 31, 2013 and  
For the six-month periods ended June 30, 2014 and 2013

and

Independent Auditors' Report

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
Xurpas, Inc.  
108 Tordesillas St.  
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 June 30, 2014 and December 31, 2013, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the six-month periods ended June 30, 2014 and 2013, 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, 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 June 30, 2014 and December 31, 2013, and their financial performance and their cash flows for the six-month periods ended June 30, 2014 and 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



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

August 7, 2014



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Xurpas, Inc.  
108 Tordesillas St.  
Salcedo Village, Makati City

We have audited the consolidated financial statements of Xurpas, Inc. (the Company) and its subsidiary (the Group) as of and for the six months ended June 30, 2014, on which we have rendered the attached report, dated August 7, 2014.

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

SYCIP GORRES VELAYO & CO.



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

August 7, 2014



## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE**

The Stockholders and the Board of Directors  
Xurpas, Inc.  
108 Tordesillas St.  
Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Xurpas, Inc. and its subsidiary (the Group) as at June 30, 2014 and December 31, 2013 and for the six-month periods ended June 30, 2014 and 2013 and have issued our report thereon dated August 7, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules A to K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jessie D. Cabaluna  
Partner  
CPA Certificate No. 36317  
SEC Accreditation No. 0069-AR-3 (Group A),  
February 14, 2013, valid until February 13, 2016  
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April 11, 2012, valid until April 10, 2015  
PTR No. 4225155, January 2, 2014, Makati City

August 7, 2014



**XURPAS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Notes 4 and 20)	₱138,445,494	₱86,502,675
Receivables (Notes 5, 15 and 20)	109,917,616	83,431,446
Other current assets (Note 6)	5,201,276	2,314,388
Total Current Assets	253,564,386	172,248,509
<b>Noncurrent Assets</b>		
Available-for-sale financial assets (Notes 7 and 20)	3,832,123	3,822,123
Property and equipment (Note 8)	4,067,158	4,260,999
Deferred tax assets - net (Note 16)	2,052,952	1,693,544
Other noncurrent assets (Note 9)	1,348,634	120,370
Total Noncurrent Assets	11,300,867	9,897,036
	₱264,865,253	₱182,145,545
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables (Notes 10, 15 and 20)	₱47,021,800	₱38,440,439
Income tax payable	2,947,353	13,416,973
Total Current Liabilities	49,969,153	51,857,412
<b>Noncurrent Liabilities</b>		
Deferred tax liabilities - net (Note 16)	13,818,809	8,611,696
Total Liabilities	63,787,962	60,469,108
<b>Equity</b>		
Equity attributable to equity holders of Xurpas, Inc. (Notes 7 and 17)		
Capital stock	71,250,000	3,250,000
Retained earnings	117,254,377	108,924,350
Net unrealized loss on available-for-sale financial assets	(220,000)	(230,000)
	188,284,377	111,944,350
Noncontrolling interests (Note 18)	12,792,914	9,732,087
Total Equity	201,077,291	121,676,437
	₱264,865,253	₱182,145,545

*See accompanying Notes to Consolidated Financial Statements.*



**XURPAS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014 and 2013**

	2014	2013
<b>REVENUE</b>		
Service income (Note 11)	₱189,338,700	₱95,143,854
Interest income (Note 4)	213,604	72,699
Other income (Note 8)	72,778	58,618
	<b>189,625,082</b>	<b>95,275,171</b>
<b>COST AND EXPENSES</b>		
Cost of services (Note 12)	62,982,603	35,471,663
General and administrative expenses (Note 13)	8,285,307	8,172,299
	<b>71,267,910</b>	<b>43,643,962</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>118,357,172</b>	<b>51,631,209</b>
<b>PROVISION FOR INCOME TAX (Note 16)</b>	<b>13,521,874</b>	<b>7,301,348</b>
<b>NET INCOME</b>	<b>104,835,298</b>	<b>44,329,861</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Item that will not be reclassified to profit or loss in subsequent periods		
Unrealized gain on available-for-sale financial assets (Note 7)	10,000	—
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱104,845,298</b>	<b>₱44,329,861</b>
<b>Net income attributable to:</b>		
Equity holders of Xurpas, Inc.	₱99,830,027	₱42,939,325
Noncontrolling interests	5,005,271	1,390,536
	<b>₱104,835,298</b>	<b>₱44,329,861</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of Xurpas, Inc.	₱99,840,027	₱42,939,325
Noncontrolling interests	5,005,271	1,390,536
	<b>₱104,845,298</b>	<b>₱44,329,861</b>
<b>Basic/Diluted Earnings Per Share (Note 19)</b>	<b>₱2.57</b>	<b>₱1.85</b>

*See accompanying Notes to Consolidated Financial Statements.*





**XURPAS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014 and 2013**

	2014	2013
<b>ATTRIBUTABLE TO EQUITY HOLDERS OF XURPAS, INC.</b>		
<b>Capital stock</b> (Note 17)		
Issued and outstanding		
Balance at January 1	<b>₱3,250,000</b>	₱3,250,000
Issuance of new shares	<b>68,000,000</b>	—
Balance at June 30	<b>71,250,000</b>	3,250,000
<b>Retained earnings</b> (Note 17)		
Appropriated		
Balance at January 1	<b>91,500,000</b>	—
Release of appropriation for dividend declaration	<b>(91,500,000)</b>	—
Appropriations for dividend declaration	<b>97,250,000</b>	—
Balance at June 30	<b>97,250,000</b>	—
Unappropriated		
Balance at January 1	<b>17,424,350</b>	28,481,090
Net income	<b>99,830,027</b>	42,939,325
Release of appropriation for dividend declaration	<b>91,500,000</b>	—
Stock dividend	<b>(61,250,000)</b>	—
Cash dividend	<b>(30,250,000)</b>	(12,700,000)
Appropriations for dividend declaration	<b>(97,250,000)</b>	—
Balance at June 30	<b>20,004,377</b>	58,720,415
	<b>117,254,377</b>	58,720,415
<b>Net unrealized loss on available-for-sale financial assets</b> (Note 7)		
Balance at January 1	<b>(230,000)</b>	(220,000)
Changes in fair value of available-for-sale financial assets	<b>10,000</b>	—
Balance at June 30	<b>(220,000)</b>	(220,000)
	<b>188,284,377</b>	61,750,415
<b>NONCONTROLLING INTERESTS</b> (Note 18)		
Balance at January 1	<b>9,732,087</b>	8,828,463
Net income	<b>5,005,271</b>	1,390,536
Dividends paid to noncontrolling interests	<b>(1,944,444)</b>	(2,916,666)
Balance at June 30	<b>12,792,914</b>	7,302,333
	<b>₱201,077,291</b>	₱69,052,748

*See accompanying Notes to Consolidated Financial Statements.*



**XURPAS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱118,357,172</b>	₱51,631,209
Adjustments for:		
Depreciation and amortization (Note 8)	<b>1,103,158</b>	1,103,425
Gain from disposal of assets (Note 8)	<b>(57,778)</b>	—
Provision for impairment losses (Note 13)	—	317,424
Unrealized foreign currency exchange loss (gain)	<b>12,459</b>	(43,618)
Interest income (Note 4)	<b>(213,604)</b>	(72,699)
Operating income before changes in working capital	<b>119,201,407</b>	52,935,741
Changes in working capital		
Decrease (increase) in:		
Receivables	<b>(26,486,170)</b>	3,411,056
Other current assets	<b>(2,886,888)</b>	(260,581)
Increase (decrease) in accounts and other payables	<b>8,581,361</b>	(6,029,212)
Net cash generated from operations	<b>98,409,710</b>	50,057,004
Interest received	<b>213,604</b>	72,699
Income taxes paid	<b>(19,143,789)</b>	(7,218,966)
Net cash provided by operating activities	<b>79,479,525</b>	42,910,737
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment (Note 8)	<b>(910,115)</b>	(3,069,273)
Proceeds from disposal of property and equipment (Note 8)	<b>58,576</b>	—
Decrease (increase) in other noncurrent assets	<b>(1,228,264)</b>	372,820
Net cash used in investing activities	<b>(2,079,803)</b>	(2,696,453)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid (Notes 17 and 18)	<b>(32,194,444)</b>	(15,616,666)
Issuance of capital stock (Notes 17 and 22)	<b>6,750,000</b>	—
Net cash used in financing activities	<b>(25,444,444)</b>	(15,616,666)
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH</b>	<b>(12,459)</b>	43,618
<b>NET INCREASE IN CASH</b>	<b>51,942,819</b>	24,641,236
<b>CASH AT BEGINNING OF PERIOD</b>	<b>86,502,675</b>	20,779,934
<b>CASH AT END OF PERIOD (Note 4)</b>	<b>₱138,445,494</b>	₱45,421,170

*See accompanying Notes to Consolidated Financial Statements.*



## **XURPAS, INC. AND SUBSIDIARY**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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 and principal place of business is at 108 Tordesillas St. Salcedo Village, Makati City. On May 5, 2014, the BOD approved the amended Articles of Incorporation to reflect the change in business address. On June 25, 2014, the SEC certified the amended Articles of Incorporation amending the principal place of business.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on August 7, 2014.

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#### **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 have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Group's presentation currency. All amounts were rounded off to the nearest peso, except when otherwise indicated.

##### Statement of Compliance

The accompanying consolidated financial statements of the Group as at June 30, 2014 and December 31, 2013 and for the six-month periods ended June 30, 2014 and 2013 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). These consolidated financial statements will be used for the Parent Company's application for increase in the authorized capital stock and for its plan to conduct an initial public offering (IPO).

In view of the said plan for IPO, the Group also prepared consolidated financial statements as of and for the years ended December 31, 2013, 2012 and 2011 in accordance with PFRS. The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing these consolidated financial statements with January 1, 2011 as the date of transition. The Group previously prepared and filed its consolidated financial statements in accordance with PFRS for Small and Medium-Sized Entities.

##### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2014 and December 31, 2013 and for the six-month periods ended June 30, 2014 and 2013.

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 statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity.

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

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 noncontrolling 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.

#### Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS and Philippine Interpretations which became effective beginning January 1, 2014. Except as otherwise stated, the adoption of these new and amended standards and Philippine Interpretations did not have any impact on the consolidated financial statements.

#### *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*

The Amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Amendments to PAS 32 are to be retrospectively applied. The Amendments affect presentation only on the Group's financial position or performance.

#### *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*

These Amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement* on the disclosures required under PAS 36. In addition, these Amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss



has been recognized or reversed during the period. These Amendments are effective retrospectively with earlier application permitted, provided PFRS 13 is also applied. The Amendments affect disclosures only and have no impact on the Group's financial position or performance.

#### Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These Amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10, *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

#### Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Philippine interpretation has no impact on the Group's future financial statements.

#### PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These Amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group does not expect this amendment to have an impact on the Group's financial position and performance.

#### Future Changes in Accounting Policies

The Group will adopt the following amended standards and Philippine interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine interpretations to have significant impact on the consolidated financial statements.

#### *Effective 2015*

#### PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

The Amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The Amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

#### *Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

#### PFRS 2, *Share-based Payment - Definition of Vesting Condition*

The Amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This Amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This Amendment does not apply to the Group as it has no share-based payments.



*PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The Amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

*PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The Amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The Amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The Amendments affect disclosures only and have no impact on the Group's financial position or performance.

*PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*

The Amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

*PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

The Amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The Amendment is effective for annual periods beginning on or after July 1, 2014. The Amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Amendment has no impact on the Group's financial position or performance.

*PAS 24, Related Party Disclosures - Key Management Personnel*

The Amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the Parent Company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The Amendments are applied retrospectively. The Amendments affect disclosures only and have no impact on the Group's financial position or performance.



*PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The Amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The Amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The Amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Amendments have no impact on the Group's financial position or performance.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards. The Amendments are effective for annual periods beginning on or after July 1, 2014 and are applied prospectively. Earlier application is permitted.

*PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

The Amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This Amendment is applicable to the Group as it is a first-time adopter of PFRS.

*PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The Amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The Amendment has no significant impact on the Group's financial position or performance.

*PFRS 13, Fair Value Measurement - Portfolio Exception*

The Amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The Amendment has no significant impact on the Group's financial position or performance.

*PAS 40, Investment Property*

The Amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The Amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The Amendment has no significant impact on the Group's financial position or performance.



#### *PFRS 9, Financial Instruments*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

#### *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the





Financial Reporting Standards Council (FRSC) have deferred the effectivity of this Interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not relevant to the Group.

#### Cash

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

#### Financial Instruments

##### *Date of recognition*

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

##### *Fair value measurement*

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see Note 20).

For assets and liabilities that are recognized in the Group's financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

##### *Initial recognition of financial instrument*

All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.



The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments, available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of June 30, 2014 and December 31, 2013, the Group's financial instruments are of the nature of loans and receivables, AFS and other financial liabilities.

#### *"Day 1" difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' difference amount.

#### *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to "Cash" and "Receivables" accounts in the consolidated statements of financial position.

After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" account in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as "Provision for impairment losses" under "General and administrative expenses" account.

Receivables are included in current assets if maturity is within 12 months from the reporting date.

#### *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 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.

#### *Other financial liabilities*

Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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



### Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Loans and receivables*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of the future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped based on past due status.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.



#### *AFS financial assets*

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from equity and recognized in the profit or loss as "Miscellaneous" under "General and administrative expenses" account. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" account in the profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the loss.

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

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 (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where 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 of 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.



#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Group's statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Other Current Assets

Other current assets consists 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 profit or loss 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.

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

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

	Years
Transportation equipment	3
Office equipment	3 to 4
Information technology (IT) equipment	4
Furniture and fixtures	3 to 5
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.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.

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

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

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

### 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.

### Noncontrolling Interests

Noncontrolling 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 noncontrolling interest even if that results in a deficit balance.

#### Revenue Recognition

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

##### *Service income*

Service income is recognized 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 expenses*

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 other current assets 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.

#### Earnings Per Share (EPS)

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

#### 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 consolidated financial statements. However, post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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### **3. Significant Accounting Judgments and Estimates and Assumptions**

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

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



### 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 Parent Company and its subsidiary, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Parent Company and its subsidiary 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 ₱109.92 million and ₱83.43 million as of June 30, 2014 and December 31, 2013, 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).



The carrying values of the Group's AFS quoted equity securities amounted to ₱0.23 million and ₱0.22 million as of June 30, 2014 and December 31, 2013, respectively (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 ₱4.07 million and ₱4.26 million as of June 30, 2014 and December 31, 2013, 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:

	<b>June 30, 2014</b>	December 31, 2013
Other current assets (Note 6)	<b>₱5,201,276</b>	₱2,314,388
Property and equipment (Note 8)	<b>4,067,158</b>	4,260,999
Other noncurrent assets (Note 9)	<b>1,348,634</b>	120,370
	<b>₱10,617,068</b>	₱6,695,757

*Recognizing deferred tax assets*

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

The Group's deferred tax assets amounted to ₱2.05 million and ₱1.69 million as of June 30, 2014 and December 31, 2013, respectively (see Note 16).



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#### 4. Cash

This account consists of:

	<b>June 30, 2014</b>	December 31, 2013
Cash on hand	<b>₱10,287</b>	₱10,000
Cash in banks	<b>138,435,207</b>	86,492,675
	<b>₱138,445,494</b>	₱86,502,675

Cash in banks earn interest at the prevailing bank deposit rates. For the six-month periods ended June 30, 2014 and 2013, interest income earned from cash in banks amounted to ₱0.21 million and ₱0.07 million, respectively.

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#### 5. Receivables

This account consists of:

	<b>June 30, 2014</b>	December 31, 2013
Trade receivables	<b>₱107,283,272</b>	₱81,020,066
Receivable from related parties	<b>2,258,067</b>	1,918,477
Advances to employees	<b>374,450</b>	490,088
Others	<b>1,827</b>	2,815
	<b>₱109,917,616</b>	₱83,431,446

Trade receivables arise mainly from the mobile content and mobile application development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI) and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of June 30, 2014 and December 31, 2013, the Group's receivables from GTI amounted to ₱101.25 million and ₱76.87 million, respectively, which comprise 94% and 95%, respectively, of the total trade receivables of the Group (see Note 20).

Receivable from related parties are noninterest-bearing and are due and demandable (see Note 15).

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.

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#### 6. Other Current Assets

This account consists of:

	<b>June 30, 2014</b>	December 31, 2013
Deferred input VAT	<b>₱3,094,895</b>	₱1,670,213
Refundable deposits	<b>1,336,006</b>	374,371
Prepaid expenses	<b>770,375</b>	269,804
	<b>₱5,201,276</b>	₱2,314,388



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

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

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

## 7. Available-for-Sale Financial Assets

This account consists of:

	June 30, 2014	December 31, 2013
Convertible bonds of Pico Candy Pte. Ltd.	₱3,602,123	₱3,602,123
Quoted share of Club Punta Fuego	230,000	220,000
	<b>₱3,832,123</b>	<b>₱3,822,123</b>

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

	June 30, 2014 (Six Months)	December 31, 2013 (One Year)
Balance at beginning of period	(₱230,000)	(₱220,000)
Unrealized gain (loss) on AFS financial asset	10,000	(10,000)
Balance at end of period	<b>(₱220,000)</b>	<b>(₱230,000)</b>

In August 2013, the Group invested in Pico Candy Pte. Ltd.'s 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:

### June 30, 2014 (Six Months)

	Transportation Equipment	Office Equipment	IT Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>						
At beginning of period	₱3,619,435	₱3,358,458	₱1,564,601	₱1,339,539	₱397,641	₱10,279,674
Additions	—	627,169	58,209	224,737	—	910,115
Disposals	—	—	—	(187,807)	—	(187,807)
At end of period	<b>3,619,435</b>	<b>3,985,627</b>	<b>1,622,810</b>	<b>1,376,469</b>	<b>397,641</b>	<b>11,001,982</b>
<b>Accumulated Depreciation and Amortization</b>						
At beginning of period	1,268,793	2,594,338	930,017	944,339	281,188	6,018,675
Depreciation and amortization	513,502	238,344	150,760	101,017	99,535	1,103,158
Disposals	—	—	—	(187,009)	—	(187,009)
At end of period	<b>1,782,295</b>	<b>2,832,682</b>	<b>1,080,777</b>	<b>858,347</b>	<b>380,723</b>	<b>6,934,824</b>
<b>Net Book Value</b>	<b>₱1,837,140</b>	<b>₱1,152,945</b>	<b>₱542,033</b>	<b>₱518,122</b>	<b>₱16,918</b>	<b>₱4,067,158</b>



## December 31, 2013 (One Year)

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

Depreciation and amortization for the six-month periods ended June 30, 2014 and 2013 are charged as follows:

	2014	2013
Cost of services (Note 12)	<b>₱196,217</b>	₱138,591
General and administrative expenses (Note 13)	<b>906,941</b>	964,834
	<b>₱1,103,158</b>	₱1,103,425

The Group's fully depreciated property and equipment with aggregate cost of ₱2.34 million and ₱2.48 million are still in use as of June 30, 2014 and December 31, 2013, respectively.

During the six-month period ended June 30, 2014, the Group disposed of its office furniture and fixtures for a gain of ₱0.06 million recognized under "Other income" account in the consolidated statements of comprehensive income.

## 9. Other Noncurrent Assets

	June 30, 2014	December 31, 2013
Advances to contractors	<b>₱827,839</b>	₱—
Deposits	<b>520,795</b>	120,370
	<b>₱1,348,634</b>	₱120,370

Advances to contractors pertain to downpayment for the renovation of the Parent Company's new office, which will be applied against future billings.

Deposits pertain to security deposits for the rental of office spaces which can be refunded upon the termination of the lease contract and advances which are applicable to the last month's rent.



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**10. Accounts and Other Payables**

This account consists of:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Deferred output VAT	<b>₱14,745,379</b>	₱5,650,871
Payable to related parties	<b>14,567,117</b>	11,228,326
Taxes payable	<b>8,211,579</b>	8,848,969
Trade payable	<b>7,566,017</b>	10,179,143
Accrued expenses	<b>1,687,941</b>	1,898,631
Others	<b>243,767</b>	634,499
	<b>₱47,021,800</b>	<b>₱38,440,439</b>

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.

Payable to related parties is noninterest-bearing and is due and demandable (see Note 15).

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 within one year.

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

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

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

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**11. Service Income**

Service income, amounting to ₱189.34 million and ₱95.14 million for the six-month periods ended June 30, 2014 and 2013, respectively, pertain to revenues earned from mobile content services and mobile application development services rendered by the Group to its major customer, GTI and other telecommunication companies.

For the six-month periods ended June 30, 2014 and 2013, the Group's revenue from GTI amounted to ₱182.87 million and ₱88.82 million, respectively, which comprise approximately 95% and 93%, respectively, of the total service income of the Group (see Note 20).





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**12. Cost of Services**

Cost of services for the six-month periods ended June 30, 2014 and 2013 consists of:

	2014	2013
Contractual services (Note 15)	<b>₱39,711,917</b>	₱13,652,863
Salaries, wages and employee benefits	<b>15,328,753</b>	15,226,296
Web hosting	<b>2,540,680</b>	1,980,978
Rent (Note 14)	<b>1,416,981</b>	1,003,836
Marketing and promotions	<b>1,368,803</b>	520,070
Professional fee	<b>677,614</b>	1,845,090
Utilities	<b>450,758</b>	425,446
Commission	<b>277,778</b>	555,556
Depreciation and amortization (Note 8)	<b>196,217</b>	138,591
Others	<b>1,013,102</b>	122,937
	<b>₱62,982,603</b>	₱35,471,663

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**13. General and Administrative Expenses**

General and administrative expenses for the six-month periods ended June 30, 2014 and 2013 consists of:

	2014	2013
Salaries, wages and employee benefits	<b>₱1,541,591</b>	₱1,252,072
Supplies	<b>1,301,681</b>	1,992,608
Taxes and licenses	<b>1,182,417</b>	324,976
Depreciation and amortization (Note 8)	<b>906,941</b>	964,834
Transportation and travel	<b>887,023</b>	796,960
Entertainment, amusement and recreation	<b>622,859</b>	780,118
Utilities	<b>402,392</b>	360,671
Professional fees	<b>302,000</b>	622,400
Repairs and maintenance	<b>292,137</b>	183,618
Association dues	<b>288,891</b>	200,808
Rent (Note 14)	<b>157,442</b>	111,537
Advertising	<b>90,800</b>	30,000
Insurance	<b>63,096</b>	155,904
Foreign exchange loss	<b>10,995</b>	—
Provision for impairment losses	—	317,424
Miscellaneous	<b>235,042</b>	78,369
	<b>₱8,285,307</b>	₱8,172,299



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#### 14. 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 2012, the Parent Company executed a noncancellable 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.
- b. The Parent Company renewed its contract with Trends and Technologies Holdings, Inc. for a period of four months commencing on May 1, 2014 and expiring on August 31, 2014. The Parent Company has no intention to further extend the lease period beyond August 31, 2014 in anticipation of its transfer to a new office space on or before August 31, 2014. The applicable rate per month is ₱0.10 million.
- c. The Parent Company entered into a cancellable lease contract with Gervel, Inc. for office space for a period of three years commencing on April 1, 2014 and expiring on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties. The applicable rate per month is ₱0.22 million and a corresponding increase of 5% on the third year of the lease.
- d. The Subsidiary entered into a lease agreement with Asian Diamond Plans, Inc. (AADI) 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 into another agreement with AADI for the adjacent unit for a period of one year commencing on September 17, 2012 with an applicable rate of ₱0.02 million per month. On April 21, 2014, the Subsidiary extended its rent and parking lease agreement with AADI from May 1 to 15, 2014.
- e. The Subsidiary entered into a noncancellable lease agreement with TKS Holdings, Inc. for a period of one year commencing on May 1, 2014 and expiring on April 30, 2015 with an applicable rental rate per month of ₱0.18 million. The lease contract may be renewed in writing by mutual agreement of the parties.

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱1.57 million and ₱1.12 million for the six-month periods ended June 30, 2014 and 2013, respectively (see Notes 12 and 13).

As of June 30, 2014 and December 31, 2013, the future minimum lease payments within one year under noncancellable operating leases amounted to ₱4.01 million and ₱0.69 million, respectively.

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#### 15. 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 June 30, 2014 and December 31, 2013 follow:

			Amount/Volume		Outstanding Balance			
			June 30, 2014	December 31, 2013	June 30, 2014		December 31, 2013	
	Terms	Conditions	(Six Months)	(One Year)	Receivable	Payable	Receivable	Payable
<b>Entities under common control</b>								
Cost of services	Noninterest-bearing	Unsecured, no impairment	₱27,670,652	₱20,473,747	₱—	₱14,567,117	₱—	₱9,678,326
Advances	Noninterest-bearing	Unsecured, no impairment	3,734,513	7,880,796	2,141,184	—	1,918,477	—
			31,405,165	28,354,543	2,141,184	14,567,117	1,918,477	9,678,326
<b>Stockholders</b>								
Advances	One year; noninterest-bearing	Unsecured, no impairment	116,883	1,550,000	116,883	—	—	1,550,000
			₱31,522,048	₱29,904,543	₱2,258,067	₱14,567,117	₱1,918,477	₱11,228,326

Entities under common control:

- On January 1, 2011, the Parent Company entered into a service agreement with Digital Storm, Inc. (DSI), wherein the latter will render services in favor of the Parent Company. The services include promotion of mobile applications jointly developed with the Parent Company and assistance in the deployment such applications in the Parent Company's programs and events. In return, the Parent Company shall pay DSI a certain percentage of the revenues generated from such applications.

In addition, the Parent Company has outstanding receivables from DSI amounting to ₱1.83 million and ₱1.61 million as of June 30, 2014 and December 31, 2013, respectively, for the operating expenditures incurred by the Parent Company on its behalf.

- Transactions from Starfish Mobile Technologies Pty. pertain to advances for its operating expenditures amounting to ₱0.31 million as of June 30, 2014 and December 31, 2013.

Stockholders:

- Transactions with stockholders pertain to advances for reimbursement of common expenses incurred by the Group in behalf of the stockholders and advances for the acquisition of property and equipment and operating expenditures that were paid by the stockholders on the Group's behalf.

*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 ₱10.55 million and ₱10.28 million for the six-month period ended June 30, 2014 and 2013, respectively.



## 16. Income Taxes

Provision for income tax for the six-month periods ended June 30, 2014 and 2013 consists of the following:

	2014	2013
Current	<b>₱8,631,563</b>	₱13,719,491
Deferred	<b>4,847,705</b>	(6,432,548)
Final	<b>42,606</b>	14,405
	<b>₱13,521,874</b>	₱7,301,348

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

Net deferred tax assets:

	June 30, 2014	December 31, 2013
Deferred tax assets (liabilities) arising from:		
Accrued expenses	<b>₱2,052,513</b>	₱1,695,087
Unrealized foreign currency exchange loss (gain)	<b>439</b>	(1,543)
	<b>₱2,052,952</b>	₱1,693,544

Net deferred tax liabilities:

	June 30, 2014	December 31, 2013
Deferred tax assets on accrued expenses	<b>₱486,150</b>	₱507,765
Deferred tax liabilities on:		
Accrued income	<b>14,289,635</b>	9,100,838
Unrealized foreign currency exchange gain	<b>15,324</b>	18,623
	<b>14,304,959</b>	9,119,461
Net deferred tax liabilities	<b>₱13,818,809</b>	₱8,611,696

The reconciliation between the statutory and effective income tax rates for the six-month periods ended June 30, 2014 and 2013 follows:

	2014	2013
Statutory income tax rate	<b>₱35,507,152</b>	₱15,489,363
Adjustments resulting from:		
Nondeductible expenses	—	4,027
Income under ITH	<b>(21,963,801)</b>	(8,184,638)
Interest income subjected to final tax	<b>(21,477)</b>	(7,404)
Provision for income tax	<b>₱13,521,874</b>	₱7,301,348

### 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:

- 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 Parent Company availed of its ITH incentive granted by the BOI amounted to ₱21.96 million and ₱8.18 million for the six-month periods ended June 30, 2014 and 2013, respectively.

## 17. Equity

The details of the number of shares as of June 30, 2014 and 2013 follow:

	2014	2013
Authorized - common shares (₱1.00 par value)	255,000,000	10,000,000
Issued and outstanding		
Balance at beginning of period	3,250,000	3,250,000
Issuance of new shares through:		
Stock dividends	61,250,000	—
Cash payments	6,750,000	—
Balance at end of period	71,250,000	3,250,000

### Capital Stock

On May 2, 2014, the BOD approved the subscription and issuance of 6.75 million shares with par value of ₱1.00 per share from the unissued portion of its ₱10.00 million authorized capital stock.

On May 5, 2014, the BOD approved the following transactions:

- Increase in authorized capital stock from ₱10.00 million divided into 10.00 million shares with par value of ₱1.00 per share to ₱255.00 million divided into 255.00 million shares with par value of ₱1.00 per share.
- Subscription of 61.25 million shares with par value of ₱1.00 per share, which represents twenty five percent of the additional increase in authorized capital stock.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱10.00 million to ₱255.00 million.

On June 25, 2014, SEC approved the application for the increase in authorized capital stock. On the same date, SEC approved the amended Articles of Incorporation amending the authorized capital stock.



As of June 30, 2014, ₱68.00 million of the ₱255.00 million authorized capital stock has been subscribed and issued, ₱61.25 million of which was issued through stock dividend declaration and the rest was paid in cash.

#### Retained Earnings

##### *Appropriations*

On December 27, 2013, 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.

On May 5, 2014, the Parent Company's BOD approved the reversal of ₱91.50 million appropriations to unappropriated retained earnings to accommodate the stock and cash dividend declaration.

On June 25, 2014, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for stock dividend declaration amounting to ₱61.25 million.

On the same date, the Parent Company's BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱36.00 million.

##### *Dividends declaration*

On March 12, 2013, the Parent Company's BOD approved the declaration of cash dividends 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.

On May 5, 2014, the BOD approved the declaration of stock dividends consisting of 61.25 million shares at ₱1.00 per share, payable out of the unrestricted retained earnings as of December 31, 2013 and payable to stockholders of record as of May 5, 2014.

On June 5, 2014, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱9.30 per share, or the aggregate amount of ₱30.25 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as of December 31, 2013 and payable to stockholders on or before June 30, 2014.



### 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 June 30, 2014 and December 31, 2013 follow:

	2014	2013
Capital stock	₱71,250,000	₱3,250,000
Retained earnings	117,254,377	108,924,350
	<b>₱188,504,377</b>	<b>₱112,174,350</b>

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 in 2014 and 2013.

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## 18. Noncontrolling Interests

The Parent Company has material noncontrolling interests to its subsidiary as follows:

	June 30, 2014	June 30, 2013
Accumulated balances of noncontrolling interest	₱12,792,914	₱7,302,333
Profit allocated to noncontrolling interest	5,005,271	1,390,536

The summarized financial information of this subsidiary is provided below. These information is based on the amounts before inter-company elimination.

	June 30, 2014	December 31, 2013
<b>Statements of financial position</b>		
Current assets	₱60,679,493	₱54,063,246
Noncurrent assets	3,075,124	2,949,127
Current liabilities	13,384,617	20,594,705
Dividends paid to noncontrolling interests	1,944,444	6,416,667
	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Statements of comprehensive income</b>		
Revenue	₱34,254,804	₱19,491,606
Total comprehensive income attributable to:		
Equity holders of Xurpas, Inc.	9,295,503	2,582,424
Noncontrolling interests	5,005,271	1,390,536



	June 30, 2014	June 30, 2013
<b>Statements of cash flows</b>		
Net cash provided by (used in) operating activities	(₱7,917,369)	₱2,969,928
Net cash used in investing activities	(793,330)	(2,719,088)
Net cash used in financing activities	(5,555,556)	(8,333,333)

## 19. Earnings Per Share

Basic/diluted earnings per share for the six-month periods ended June 30, 2014 and 2013 were computed as follows:

	2014	2013
a. Net income attributable to the equity holders of the Parent Company	₱99,830,027	₱42,939,325
b. Weighted average number of outstanding shares	38,833,218	23,156,250
c. Earnings per share (a/b)	₱2.57	₱1.85

Earnings per share is calculated using the consolidated net income attributable to the equity holders of the Parent Company divided by the weighted average number of shares. To determine the weighted average number of shares, the stock dividend declaration on May 5, 2014 was retroactively adjusted (see Note 17).

## 20. Financial Instruments

### Fair Value

As of June 30, 2014 and December 31, 2013, the Group's financial instruments whose carrying values approximate their fair values due to their short-term nature are "Cash", "Receivables", "Accounts and other payables" (excluding "Deferred output VAT", "Taxes payable" and statutory payables included as "Others").

The Group measures its AFS financial assets at fair value at each reporting date.

AFS quoted equity securities - Fair value is based on quoted prices published in the market and debt securities.

### Fair Value Hierarchy

The Group uses the following three-level hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

AFS financial assets-quoted equity securities amounting to ₱0.23 million and ₱0.22 million as of June 30, 2014 and December 31, 2013, respectively, were classified under Level 1 category.





There have been no reclassifications from Level 1 to Level 2 or 3 categories for the six-month period ended June 30, 2014.

#### Financial Risk Management and Objectives and Policies

The Group's financial instruments comprise cash, receivable, AFS financial assets, and accounts and other payables (excluding taxes payable and statutory payables), which arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.

Exposure to credit risk, liquidity risk and foreign currency risk arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Group's risk management policies are summarized below:

#### Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation.

The Group's credit risk is primarily attributable to cash and receivables. To manage credit risk, the Group monitors its exposure to credit risk on a continuous basis.

As disclosed in Note 5, the Group has concentration of credit risk with receivable from GTI, its largest customer, representing 94% and 95% of its total receivables as of June 30, 2014 and December 31, 2013, respectively.

The Group has an agreement with GTI, wherein the former will provide mobile content services and mobile application development services to the latter in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile content services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI's mobile phone subscribers. Mobile application development, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI's mobile content products. In return, GTI shall pay the Parent Company a certain percentage of the revenues generated from such products.

The Group adheres to fixed limits and guidelines in its dealings with counterparty banks. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, the Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

The Group's maximum exposure to credit risk as of June 30, 2014 and December 31, 2013 is equal to the carrying values of its financial assets.



The aging analysis of receivables presented per class follows:

### June 30, 2014

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	Total
		<30 days	30 to <90 days	>90 days		
Trade receivable	₱91,324,512	₱1,575,714	₱3,451,588	₱10,931,458	₱–	₱107,283,272
Receivable from related parties	1,949,236	–	–	308,831	–	2,258,067
Advances to employees	374,450	–	–	–	–	374,450
Others	1,827	–	–	–	–	1,827
	₱93,650,025	₱1,575,714	₱3,451,588	₱11,240,289	₱–	₱109,917,616

### December 31, 2013

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	Total
		<30 days	30 to <90 days	>90 days		
Trade receivable	₱64,478,790	₱707,048	₱15,319,379	₱514,849	₱–	₱81,020,066
Receivable from related parties	1,609,646	–	–	308,831	–	1,918,477
Advances to employees	490,088	–	–	–	–	490,088
Others	2,815	–	–	–	–	2,815
	₱66,581,339	₱707,048	₱15,319,379	₱823,680	₱–	₱83,431,446

The tables show the credit quality by class of the Group's financial assets as of June 30, 2014 and December 31, 2013.

### June 30, 2014

	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired Financial Assets	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱138,435,207	₱–	₱–	₱–	₱–	₱138,435,207
Receivables:						
Trade receivable	91,324,512	–	–	15,958,760	–	107,283,272
Receivable from related parties	1,949,236	–	–	308,831	–	2,258,067
Advances to employees	374,450	–	–	–	–	374,450
Others	1,827	–	–	–	–	1,827
AFS financial assets	3,832,123	–	–	–	–	3,832,123
	₱235,917,355	₱–	₱–	₱16,267,591	₱–	₱252,184,946

### December 31, 2013

	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired Financial Assets	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱86,492,675	₱–	₱–	₱–	₱–	₱86,492,675
Receivables:						
Trade receivable	64,478,790	–	–	16,541,276	–	81,020,066
Receivable from related parties	1,609,646	–	–	308,831	–	1,918,477
Advances to employees	490,088	–	–	–	–	490,088
Others	2,815	–	–	–	–	2,815
AFS financial assets	3,822,123	–	–	–	–	3,822,123
	₱156,896,137	₱–	₱–	₱16,850,107	₱–	₱173,746,244



The credit quality of the financial assets was determined as follows:

Cash in banks and AFS financial assets - based on the nature of the counterparty.

Receivables- high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

#### *Liquidity Risk*

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirement, finance capital expenditures and service maturing debts. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available short-term and long term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD.

The maturity profile of the Group's financial assets and financial liabilities at June 30, 2014 and December 31, 2013 are based on contractual undiscounted payments.

As of June 30, 2014 and December 31, 2013, the Group's financial assets and financial liabilities have a maturity of less than one year.

#### *Foreign Currency Risk*

The Group holds dollar-denominated deposits which can be affected by fluctuations of foreign currency exchange. Other than this, the Group does not have exposure to foreign currency risk, as most of its transactions are denominated in Philippine peso, its functional currency.

The following table shows the Group's foreign currency-denominated monetary and their peso equivalents as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	US Dollar	Php Equivalent	US Dollar	Php Equivalent
<b>Asset</b>				
Cash in banks	\$16,960	₱740,289	\$18,765	₱833,072

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rate used was ₱43.65 to US\$1.00 and ₱44.40 to US\$1.00, the Philippine Dealings Exchange (PDEx) closing rates as at June 30, 2014 and December 31, 2013, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine Peso-US dollar exchange rate, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) as of June 30, 2014 and December 31, 2013. There is no other impact on the Group's equity other than those already affecting the profit or loss.

Increase (decrease) in exchange rate	Effect on profit before tax	
	June 30, 2014	June 30, 2013
₱1.00	₱16,960	₱20,302
(1.00)	(16,960)	(20,302)



## 21. Segment Reporting

The industry segments where the Group operates follow:

- Mobile content services - includes airtime management, content development and management and marketing and advertising solutions
- Mobile application development - includes platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services

The following tables regarding business segment revenue and profit information for the six-month period ended June 30, 2014 and 2013:

### Six-month period ended June 30, 2014

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
Revenue from services to external customers	₱155,182,903	₱34,155,797	₱–	₱189,338,700
Operating expenses	57,437,301	13,830,609	–	71,267,910
Operating profit	97,745,602	20,325,188	–	118,070,790
Dividend income	3,611,111	–	(3,611,111)	–
Interest income	176,380	37,224	–	213,604
Other income	10,995	61,783	–	72,778
Provision for income tax	(7,398,453)	(6,123,421)	–	(13,521,874)
Net income	₱94,145,635	₱14,300,774	(₱3,611,111)	₱104,835,298
Net income attributable to:				
Equity holders of Xurpas, Inc.				₱99,830,027
Noncontrolling interests				5,005,271
				₱104,835,298

### Six-month period ended June 30, 2013

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
Revenue from services to external customers	₱75,735,317	₱19,408,537	₱–	₱95,143,854
Operating expenses	29,829,635	13,814,327	–	43,643,962
Operating profit	45,905,681	5,594,210	–	51,499,892
Dividend income	5,416,667	–	(5,416,667)	–
Interest income	45,019	27,680	–	72,699
Other income	3,229	55,389	–	58,618
Provision for income tax	(5,597,030)	(1,704,318)	–	(7,301,348)
Net income	₱45,773,566	₱3,972,961	(₱5,416,667)	₱44,329,861
Net income attributable to:				
Equity holders of Xurpas, Inc.				₱42,939,325
Noncontrolling interests				1,390,536
				₱44,329,861



The following tables regarding business segment assets and liabilities as of June 30, 2014 and December 31, 2013:

**As at June 30, 2014**

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
<b>Other information</b>				
Segment assets	₱202,909,255	₱63,754,617	(₱3,851,571)	₱262,812,301
Deferred tax assets	2,052,952	—	—	2,052,952
<b>Total Assets</b>	<b>₱204,962,207</b>	<b>₱63,754,617</b>	<b>(₱3,851,571)</b>	<b>₱264,865,253</b>
Segment liabilities	₱36,584,536	₱13,384,617	₱—	₱49,969,153
Deferred tax liabilities	—	13,818,809	—	13,818,809
<b>Total Liabilities</b>	<b>₱36,584,535</b>	<b>₱27,203,426</b>	<b>₱—</b>	<b>₱63,787,962</b>

**As at December 31, 2013**

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
<b>Other information</b>				
Segment assets	₱127,291,199	₱57,012,373	(₱3,851,571)	₱180,452,001
Deferred tax assets	1,693,544	—	—	1,693,544
<b>Total Assets</b>	<b>₱128,984,743</b>	<b>₱57,012,373</b>	<b>(₱3,851,571)</b>	<b>₱182,145,545</b>
Segment liabilities	₱31,262,707	₱20,594,705	₱—	₱51,857,412
Deferred tax liabilities	—	8,611,696	—	8,611,696
<b>Total Liabilities</b>	<b>₱31,262,707</b>	<b>₱29,206,401</b>	<b>₱—</b>	<b>₱60,469,108</b>

**22. Notes to Statements of Cash Flows**

For the six-month period ended June 30, 2014, the Parent Company issued 61.25 million shares with total par value of ₱61.25 million through stock dividend declaration (see Note 17).

**23. Events After Reporting Period**

On July 10, 2014, the BOD approved the following transactions:

- Increase in authorized capital stock from ₱255.00 million divided into 255.00 million common shares at the par value of ₱1.00 each to ₱500.00 million divided into 500.00 million common shares at the par value of ₱1.00 each.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱255.00 million to ₱500.00 million.
- Subscription of 61.25 million shares with par value of ₱1.00 per share, which is paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

As of August 7, 2014, the Parent Company is in the process of filing with SEC the increase in authorized capital stock and amendments of related articles in the Articles of Incorporation.



**XURPAS, INC. AND SUBSIDIARY**  
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY**  
**SCHEDULES**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014**

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<b>Schedule</b>	<b>Contents</b>
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock
I	Reconciliation of Retained Earnings Available for Dividend Declaration
J	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsiidiaries
K	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards

**SCHEDULE A**

**XURPAS, INC. AND SUBSIDIARY**

**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS  
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2014**

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash on hand and in banks				
Cash on hand	₱—	₱10,287	₱—	₱—
Cash in banks				
Bank of the Philippine Islands				
Savings Account	—	137,796,023	—	212,613
US Dollar				
Account	—	629,108		989
Robinsons bank				
Savings Account	—	10,076	—	2
Receivables				
Trade	—	107,283,272	—	—
Advances to employees	—	374,450	—	—
Others	—	1,827	—	—
AFS financial assets				
Quoted equity securities	—	230,000	230,000	—
Unquoted debt securities	3,602,123	3,602,123	—	—
	₱3,602,123	₱249,937,166	₱230,000	₱213,604

**SCHEDULE B****XURPAS, INC. AND SUBSIDIARY**


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**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM  
DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND  
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)  
AS OF JUNE 30, 2014**


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Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Advances to employees	₱490,088	₱379,142	₱494,780	₱374,450	₱—	₱374,450
Accounts receivable from directors, officers, KMP and employees	—	288,243	171,360	116,883	—	116,883
	₱490,088	₱667,385	₱666,140	₱491,333	₱—	₱491,333

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**XURPAS, INC. AND SUBSIDIARY**

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM  
RELATED PARTIES WHICH ARE ELIMINATED DURING THE  
CONSOLIDATION OF FINANCIAL STATEMENTS  
AS OF JUNE 30, 2014**

**Receivables from related parties which are eliminated during the consolidation**

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at end of period
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**Not Applicable**

*The Group does not have receivables from related parties which are eliminated during the consolidation of financial statements.*

**SCHEDULE D****XURPAS, INC. AND SUBSIDIARY****SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER  
ASSETS****AS OF JUNE 30, 2014**

<b>Intangible Assets - Other Assets</b>						
Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance

**Not Applicable*****The Group does not have intangible assets in its consolidated statements of financial position.***

**SCHEDULE E****XURPAS, INC. AND SUBSIDIARY****SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT****AS OF JUNE 30, 2014**

Long-term Debt			
Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
Not Applicable			
The Group does not have long-term debt in its consolidated statements of financial position.			

**XURPAS, INC. AND SUBSIDIARY**


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**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED  
PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)  
AS OF JUNE 30, 2014**


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<b>Indebtedness to related parties (Long-term loans from related companies)</b>		
<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
Digital Storm Inc. (DSI)*	₱9,678,326	<b>₱14,567,117</b>

\* The more than 10% increase in the receivables of DSI from Xurpas, Inc. is mainly attributable to June 2014 cost of services that were billed in July 2014.

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***The Group does not have long-term loans from related companies in its consolidated statements of financial position but the indebtedness to related party exceeds 5% of the total assets.***

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**XURPAS, INC. AND SUBSIDIARY****SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF  
OTHER ISSUERS****AS OF JUNE 30, 2014****Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
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**Not Applicable**

*The Group does not have any guarantees of securities of other issuing entities by the issuer for which the consolidated financial statement is filed.*

**XURPAS, INC. AND SUBSIDIARY****SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK  
AS OF JUNE 30, 2014**

<b>Capital Stock</b>						
<b>Title of Issue</b>	<b>Number of shares authorized</b>	<b>Number of shares issued and outstanding as shown under related balance sheet caption</b>	<b>Number of shares reserved for options warrants, conversion and other rights</b>	<b>Number of shares held by related parties</b>	<b>Directors, officers and employees</b>	<b>Others</b>
Common shares	255,000,000	71,250,000	—	—	71,250,000	—

**SCHEDULE I**

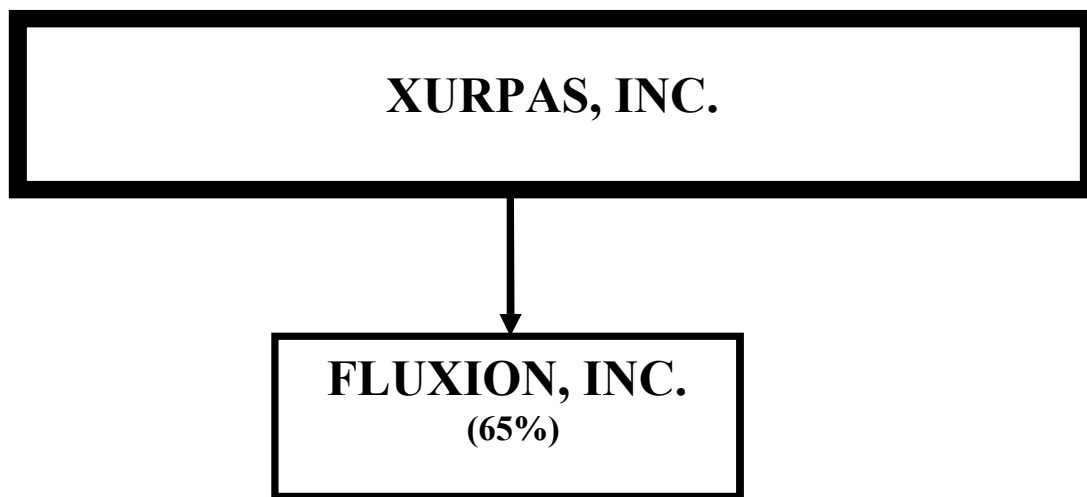
**XURPAS, INC. AND SUBSIDIARY**  
**SUPPLEMENTARY SCHEDULE OF PARENT COMPANY RETAINED**  
**EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**  
**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014**

Unappropriated Retained Earnings, beginning	₱3,202,039
Adjustments:	
(See adjustments in previous year's Reconciliation)	—
Unappropriated Retained Earnings, as adjusted, beginning	3,202,039
Net income during the period closed to retained earnings (Parent Company)	94,145,635
Add (less):	
Release of appropriation for dividend declaration	91,500,000
Stock dividends declared	(61,250,000)
Cash dividends declared	(30,250,000)
Appropriations of retained earnings for:	
Stock dividend declaration	(61,250,000)
Cash dividend declaration	(36,000,000)
	(97,250,000)
Unappropriated Retained Earnings, end available for dividend distribution	₱97,674

**XURPAS, INC. AND SUBSIDIARY**

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE  
COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND  
CO-SUBSIDIARIES  
AS OF JUNE 30, 2014**

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**XURPAS, INC. AND SUBSIDIARY****LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics</b>		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2013		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
<b>PFRS 11</b>	Joint Arrangements			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Date	✓		
<b>PAS 11</b>	Construction Contracts	✓		
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of June 30, 2014		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 19</b>	Employee Benefits			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group plans and disclosures			✓
<b>PAS 19 (Amended)</b>	Employee Benefits			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
<b>PAS 27 (Amended)</b>	Separate Financial Statements			✓
<b>PAS 28</b>	Investment in Associate			✓
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting			✓
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of June 30, 2014		Adopted	Not Adopted	Not Applicable
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
<b>PAS 40</b>	Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 8</b>	<i>Scope of PFRS 2</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of June 30, 2014</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

**SCHEDULE L**

**XURPAS, INC. AND SUBSIDIARY**  
**FINANCIAL RATIOS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014**

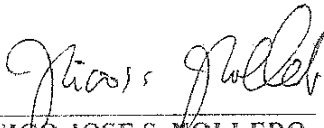
<b>Financial Ratios</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
A. Current ratios		
Current ratios	507.44%	332.16%
Quick ratios	507.44%	332.16%
B. Solvency ratios/debt-to-equity ratios	<i>This is not applicable as the Group has no short term and long term debt as of June 30, 2014 and December 31, 2013</i>	
C. Asset-to-equity ratios	140.67%	162.71%
D. Interest rate coverage ratios	<i>This is not applicable as the Group has no interest expense incurred from short-term and long-term for the six months period ended June 30, 2014 and 2013</i>	
E. Profitability ratios		
Net income margin	52.73%	44.93%
Gross margin	66.74%	64.51%
Operating margin	63.09%	56.89%
Return on total assets	54.18%	86.67%
Return on equity	79.85%	157.74%

**"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.

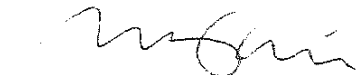
SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the **consolidated** financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation 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	

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*Ronald Segundino C. Ching*  
ATTY. RONALD SEGUNDINO C. CHING  
Notary Public - Manila  
Roll No. 5069

IBP No. 923-10-12-10-13  
PTR No. 34207153-01-02-14  
Valid Until Dec - 31, 2014



# Xurpas, Inc. and Subsidiary

Consolidated Financial Statements  
December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
Xurpas, Inc.  
108 Tordesillas St.  
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, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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, 2013, 2012 and 2011, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

### ***Basis of Accounting and Restriction on Distribution and Use***

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes its purpose of preparation. Xurpas, Inc. and its subsidiary prepared their consolidated financial statements for the first time in accordance with full Philippine Financial Reporting Standards in view of Xurpas, Inc.'s concrete plan to conduct an Initial Public Offering. As a result, the consolidated financial statements may not be suitable for any other purpose.

SYCIP GORRES VELAYO & CO.



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

August 7, 2014



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Xurpas, Inc.  
108 Tordesillas St.  
Salcedo Village, Makati City

We have audited the consolidated financial statements of Xurpas, Inc. (the Company) and its subsidiary (the Group) as of and for the year ended December 31, 2013, on which we have rendered the attached report, dated August 7, 2014.

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

SYCIP GORRES VELAYO & CO.



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

August 7, 2014



## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE**

The Stockholders and the Board of Directors  
Xurpas, Inc.  
108 Tordesillas St.  
Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Xurpas, Inc. and its subsidiary (the Group) as at December 31, 2013, 2012 and 2011 and for the years then ended have issued our report thereon dated August 7, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules A to K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



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

August 7, 2014



**XURPAS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31		
	2013	2012	2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash (Notes 4 and 20)	₱86,502,675	₱20,779,934	₱12,107,901
Receivables (Notes 5, 15 and 20)	83,431,446	53,021,034	38,023,413
Other current assets (Note 6)	2,314,388	1,306,214	3,229,654
Total Current Assets	172,248,509	75,107,182	53,360,968
<b>Noncurrent Assets</b>			
Available-for-sale financial assets (Notes 7 and 20)	3,822,123	230,000	210,000
Property and equipment (Note 8)	4,260,999	3,104,610	1,520,860
Deferred tax assets - net (Note 16)	1,693,544	—	—
Other noncurrent assets (Note 9)	120,370	515,996	283,176
Total Noncurrent Assets	9,897,036	3,850,606	2,014,036
	₱182,145,545	₱78,957,788	₱55,375,004
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts and other payables (Notes 10, 15 and 20)	₱38,440,439	₱22,064,191	₱13,058,067
Income tax payable	13,416,973	2,887,607	89,493
Dividends payable (Note 17)	—	—	7,095,193
Total Current Liabilities	51,857,412	24,951,798	20,242,753
<b>Noncurrent Liabilities</b>			
Deferred tax liabilities - net (Note 16)	8,611,696	13,666,437	5,499,305
Total Liabilities	60,469,108	38,618,235	25,742,058
<b>Equity</b>			
Equity attributable to equity holders of Xurpas, Inc.			
Capital stock (Note 17)	3,250,000	3,250,000	3,250,000
Retained earnings (Note 17)	108,924,350	28,481,090	21,955,730
Net unrealized loss on available-for sale financial assets (Note 7)	(230,000)	(220,000)	(240,000)
	111,944,350	31,511,090	24,965,730
Noncontrolling interests (Note 18)	9,732,087	8,828,463	4,667,216
Total Equity	121,676,437	40,339,553	29,632,946
	₱182,145,545	₱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		
	2013	2012	2011
<b>REVENUE</b>			
Service income (Note 11)	₱251,814,243	₱136,042,440	₱95,307,080
Interest income (Note 4)	174,986	111,930	77,492
Other income	67,219	300	—
	<b>252,056,448</b>	<b>136,154,670</b>	<b>95,384,572</b>
<b>COST AND EXPENSES</b>			
Cost of services (Note 12)	89,361,550	63,804,193	57,368,369
General and administrative expenses (Note 13)	21,635,099	16,793,108	10,169,408
	<b>110,996,649</b>	<b>80,597,301</b>	<b>67,537,777</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>141,059,799</b>	<b>55,557,369</b>	<b>27,846,795</b>
<b>PROVISION FOR INCOME TAX</b> (Note 16)	<b>20,596,248</b>	<b>17,345,038</b>	<b>7,682,846</b>
<b>NET INCOME</b>	<b>₱120,463,551</b>	<b>₱38,212,331</b>	<b>₱20,163,949</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Item that will not be reclassified to profit or loss in subsequent periods</b>			
Unrealized gain (loss) on available-for-sale financial assets (Note 7)	(10,000)	20,000	10,000
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱120,453,551</b>	<b>₱38,232,331</b>	<b>₱20,173,949</b>
<b>Net income attributable to:</b>			
Equity holders of Xurpas, Inc.	₱113,143,260	₱30,414,973	₱17,967,931
Noncontrolling interests	7,320,291	7,797,358	2,196,018
	<b>₱120,463,551</b>	<b>₱38,212,331</b>	<b>₱20,163,949</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of Xurpas, Inc.	₱113,133,260	₱30,434,973	₱17,977,931
Noncontrolling interests	7,320,291	7,797,358	2,196,018
	<b>₱120,453,551</b>	<b>₱38,232,331</b>	<b>₱20,173,949</b>
<b>Basic/Diluted Earnings Per Share (Note 19)</b>	<b>₱4.89</b>	<b>₱1.31</b>	<b>₱0.78</b>

*See accompanying Notes to Consolidated Financial Statements.*



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

	For the years ended December 31		
	2013	2012	2011
<b>ATTRIBUTABLE TO EQUITY</b>			
<b>HOLDERS OF XURPAS, INC.</b>			
<b>Capital stock</b> - ₱1.00 par value (Note 17)			
Authorized - 10,000,000 common shares			
Issued and outstanding			
Balance at beginning and end of year	<b>₱3,250,000</b>	₱3,250,000	₱3,250,000
<b>Retained earnings</b> (Note 17)			
Appropriated			
Appropriations for dividend declaration	<b>91,500,000</b>	—	—
Unappropriated			
Balance at beginning of year	<b>28,481,090</b>	21,955,730	4,425,491
Net income	<b>113,143,260</b>	30,414,973	17,967,931
Cash dividend declaration	<b>(32,700,000)</b>	(23,889,613)	(437,692)
Appropriations for dividend declaration	<b>(91,500,000)</b>	—	—
Balance at end of year	<b>17,424,350</b>	28,481,090	21,955,730
	<b>108,924,350</b>	28,481,090	21,955,730
<b>Net unrealized loss on available-for-sale</b>			
<b>financial assets</b> (Note 7)			
Balance at beginning of year	<b>(220,000)</b>	(240,000)	(250,000)
Changes in fair value of available-for-sale financial assets	<b>(10,000)</b>	20,000	10,000
Balance at end of year	<b>(230,000)</b>	(220,000)	(240,000)
	<b>111,944,350</b>	31,511,090	24,965,730
<b>NONCONTROLLING INTERESTS</b>			
(Note 18)			
Balance at beginning of year	<b>8,828,463</b>	4,667,216	2,471,198
Net income	<b>7,320,291</b>	7,797,358	2,196,018
Dividends paid to noncontrolling interests	<b>(6,416,667)</b>	(3,636,111)	—
Balance at end of year	<b>9,732,087</b>	8,828,463	4,667,216
	<b>₱121,676,437</b>	₱40,339,553	₱29,632,946

*See accompanying Notes to Consolidated Financial Statements.*





**XURPAS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the years ended December 31		
	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱141,059,799</b>	₱55,557,369	₱27,846,795
Adjustments for:			
Depreciation and amortization (Note 8)	<b>2,190,522</b>	1,292,447	1,136,678
Provision for impairment losses (Note 13)	<b>317,424</b>	1,641,024	250,054
Provision for probable losses (Note 13)	<b>—</b>	1,620,501	—
Unrealized foreign currency exchange loss (gain)	<b>(67,219)</b>	56,420	18,546
Loss on write-off of property and equipment (Notes 8 and 13)	<b>—</b>	579,356	64,931
Interest income (Note 4)	<b>(174,986)</b>	(111,930)	(77,492)
Operating income before changes in working capital	<b>143,325,540</b>	60,635,187	29,239,512
Changes in operating assets and liabilities			
Decrease (increase) in:			
Receivables	<b>(30,727,836)</b>	(17,218,001)	(18,112,605)
Other current assets	<b>(1,008,174)</b>	1,923,440	1,945,804
Increase in accounts and other payables	<b>16,376,248</b>	290,431	6,366,891
Net cash generated from operations	<b>127,965,778</b>	45,631,057	19,439,602
Interest received	<b>174,986</b>	111,930	77,492
Income taxes paid	<b>(16,815,167)</b>	(6,379,793)	(4,234,004)
Net cash provided by operating activities	<b>111,325,597</b>	39,363,194	15,283,090
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of available-for-sale assets (Note 7)	<b>(3,602,123)</b>	—	—
Acquisitions of property and equipment (Note 8)	<b>(3,346,911)</b>	(2,876,197)	(648,948)
Additions to (refund of) deposits	<b>395,626</b>	(232,820)	(283,176)
Net cash provided by (used in) investing activities	<b>(6,553,408)</b>	(3,109,017)	(932,124)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Dividends paid (Notes 17 and 18)	<b>(39,116,667)</b>	(27,525,724)	(9,388,356)
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH</b>	<b>67,219</b>	(56,420)	(18,546)
<b>NET INCREASE IN CASH</b>	<b>65,722,741</b>	8,672,033	4,944,064
<b>CASH AT BEGINNING OF YEAR</b>	<b>20,779,934</b>	12,107,901	7,163,837
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱86,502,675</b>	₱20,779,934	₱12,107,901

*See accompanying Notes to Consolidated Financial Statements.*



## **XURPAS, INC. AND SUBSIDIARY**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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 and principal place of business is at 108 Tordesillas St. Salcedo Village, Makati City. On May 5, 2014, the BOD approved the amended Articles of Incorporation to reflect the change in business address. On June 25, 2014, the SEC approved the amended Articles of Incorporation amending the principal place of business.

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on August 7, 2014.

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#### **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 have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Group's presentation currency. All amounts were rounded off to the nearest peso, except when otherwise indicated.

##### Statement of Compliance

The accompanying consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The Group adopted full PFRS in view of the Group's concrete plan to conduct an initial public offering in October 2014. Accordingly, these are the Group's first consolidated financial statements prepared in accordance with PFRS. The Group prepared and filed its consolidated financial statements in accordance with PFRS for Small and Medium-Sized Entities (PFRS for SMEs) before the adoption of full PFRS.

The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the consolidated financial statements with January 1, 2011 as the date of transition. The Group has consistently applied the accounting policies used in the preparation of its opening PFRS statement of financial position at January 1, 2011 throughout all periods presented, as if these policies had always been in effect. The Group's accounting policies applied in the preparation of the PFRS financial statements also include the adoption of the new and amended PFRS that became effective in 2013, 2012 and 2011. The first time adoption and transition to full PFRS did not impact the reported financial position of the Group as of December 31, 2013, 2012 and 2011 and January 1, 2011 and its financial performance and cash flows for the three years ended December 31, 2013, 2012 and 2011 in accordance with the PFRS for SMEs.



#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2013, 2012 and 2011 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 statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity.

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

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:

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

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.

#### Adoption of New and Amended Accounting Standards and Interpretations

As previously stated, the Group applied the PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the consolidated financial statements with date of transition as of January 1, 2011. In addition, the following new and amended PFRS and Philippine Accounting Standards (PAS) which became effective beginning January 1, 2013 were applied. Except as otherwise indicated, the adoption of the new and amended standards did not have a significant impact on the Group's consolidated financial statements.

#### *PFRS 7, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)*

These Amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular



format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

#### *PFRS 10, Consolidated Financial Statements*

PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

#### *PFRS 11, Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

#### *PFRS 12, Disclosure of Interests with Other Entities*

PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

#### *PFRS 13, Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

This Standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 20.



*PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*

The Amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled.

*PAS 19, Employee Benefits (Revised)*

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns of plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The Amendment has no impact on the Group’s financial position or performance since the Group has no retirement plan as of the end of the reporting period.

*PAS 27, Separate Financial Statements (As revised in 2011)*

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

*PAS 28, Investments in Associates and Joint Ventures (As revised in 2011)*

As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

*Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*

This Interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The Interpretation addresses the accounting for the benefit from the stripping activity.

*PFRS 1, First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments)*

The Amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans.



*Annual Improvements to PFRSs (2009-2011 cycle)*

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

*PFRS 1, First-time Adoption of PFRS - Borrowing Costs*

The Amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*.

*PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

The Amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The Amendments will not have significant impact on the Group's financial statements since the comparative information disclosures are in accordance with the requirements of PAS 1.

*PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

*PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

The Amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The Amendment affects disclosures only and has no impact on the Group's financial position or performance.

Future Changes in Accounting Policies

The Group will adopt the following amended standards and Philippine interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine interpretations to have significant impact on the consolidated financial statements.

*Effective 2014*

*PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*

The Amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems



(such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only on the Group's financial position or performance. The Amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*

These Amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these Amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These Amendments are effective retrospectively with earlier application permitted, provided PFRS 13 is also applied. The Amendments affect disclosures only and have no impact on the Group's financial position or performance.

*Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*

These Amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

*Philippine Interpretation IFRIC 21, Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Philippine interpretation has no impact on the Group's future financial statements.

*PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*

These Amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. This Amendment does not apply to the Group as it has no derivatives.

*PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*

The Amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The Amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

*Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

*PFRS 2, Share-based Payment - Definition of Vesting Condition*

The Amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This



Amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This Amendment does not apply to the Group as it has no share-based payments.

*PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The Amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. This Amendment does not apply to the Group as it has no business combination.

*PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The Amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The Amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The Amendments affect disclosures only and have no impact on the Group's financial position or performance.

*PFRS 13, Fair Value Measurement - Short-term Receivables and Payables.* This Amendment does not apply to the Group as it has no operating segments.

*PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

The Amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The Amendment is effective for annual periods beginning on or after July 1, 2014. The Amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Amendment has no impact on the Group's financial position or performance.

*PAS 24, Related Party Disclosures - Key Management Personnel*

The Amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by





the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The Amendments are applied retrospectively. The Amendments affect disclosures only and have no impact on the Group's financial position or performance.

*PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The Amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The Amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The Amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Amendments have no impact on the Group's financial position or performance.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards. The Amendments are effective for annual periods beginning on or after July 1, 2014 and are applied prospectively. Earlier application is permitted.

*PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The Amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The Amendment has no significant impact on the Group's financial position or performance.

*PFRS 13, Fair Value Measurement - Portfolio Exception*

The Amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The Amendment has no significant impact on the Group's financial position or performance.

*PAS 40, Investment Property*

The Amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The Amendment stated that judgement is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgement is based on the guidance of PFRS 3. The Amendment has no significant impact on the Group's financial position or performance.



#### *PFRS 9, Financial Instruments*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

#### *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the



Financial Reporting Standards Council (FRSC) have deferred the effectivity of this Interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not relevant to the Group.

#### Cash

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

#### Financial Instruments

##### *Date of recognition*

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

##### *Fair value measurement*

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see Note 20).

For assets and liabilities that are recognized in the Group's financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

##### *Initial recognition of financial instrument*

All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.



The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments, available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2013, 2012 and 2011, the Group's financial instruments are of the nature of loans and receivables, AFS and other financial liabilities.

#### *"Day 1" difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' difference amount.

#### *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to "Cash" and "Receivables" accounts in the consolidated statements of financial position.

After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income" account in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as "Provision for impairment losses" under "General and administrative expenses" account.

Receivables are included in current assets if maturity is within 12 months from the reporting date.

#### *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 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.

#### *Other financial liabilities*

Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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

#### Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a



result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Loans and receivables*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of the future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped based on past due status.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

#### *AFS financial assets*

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.



In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from equity and recognized in the profit or loss as “Miscellaneous” under “General and administrative expenses” account. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the loss.

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

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 (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where 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 of 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.

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Group’s statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.



#### Other Current Assets

Other current assets consists 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 profit or loss 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.

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

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

	Years
Transportation equipment	3
Office equipment	3 to 4
Information technology (IT) equipment	4
Furniture and fixtures	3 to 5
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.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.

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

The Group assesses at each financial reporting date whether there is an indication that its nonfinancial assets (i.e. property and equipment and deposits) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable





amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

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

#### 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.

#### Noncontrolling Interests

Noncontrolling 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 noncontrolling interest even if that results in a deficit balance.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the



consideration received, excluding discounts, and sales taxes, if any. The following specific recognition criteria must also be met before revenue is recognized:

*Service income*

Service income is recognized 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 expenses*

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 other current assets 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.

#### Earnings Per Share (EPS)

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

#### 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 consolidated financial statements. However, post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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### **3. Significant Accounting Judgments and Estimates and Assumptions**

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

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



### 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 Parent Company and its subsidiary, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine Peso. It is the currency of the economic environment in which the Parent Company and its subsidiary 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, ₱53.02 million and ₱38.02 million as of December 31, 2013, 2012 and 2011, 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).



The carrying values of the Group's AFS quoted equity securities amounted to ₱0.22 million, ₱0.23 million and ₱0.21 million as December 31, 2013, 2012 and 2011, respectively (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, ₱3.10 million and ₱1.52 million as of December 31, 2013, 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 values of these nonfinancial assets follow:

	2013	2012	2011
Other current assets (Note 6)	<b>₱2,314,388</b>	₱1,306,214	₱3,229,654
Property and equipment (Note 8)	<b>4,260,999</b>	3,104,610	1,520,860
Other noncurrent assets (Note 9)	<b>120,370</b>	515,996	283,176
	<b>₱6,695,757</b>	₱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 net deferred tax assets amounted to ₱1.69 million as of December 31, 2013 and nil as of December 31, 2012 and 2011 (see Note 16).

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#### 4. Cash

This account consists of:

	2013	2012	2011
Cash on hand	<b>₱10,000</b>	₱10,816	₱13,504
Cash in banks	<b>86,492,675</b>	20,769,118	12,094,397
	<b>₱86,502,675</b>	20,779,934	₱12,107,901



Cash in banks earn interest at the prevailing bank deposit rates. In 2013, 2012 and 2011, interest income earned from cash in banks amounted to ₱0.17 million, ₱0.11 million and ₱0.08 million, respectively.

## 5. Receivables

This account consists of:

	2013	2012	2011
Trade receivables	<b>₱81,020,066</b>	₱52,691,960	₱34,776,380
Receivable from related parties	<b>1,918,477</b>	1,666,786	5,116,193
Advances to employees	<b>490,088</b>	499,635	686,825
Others	<b>2,815</b>	53,731	10,321
	<b>83,431,446</b>	54,912,112	40,589,719
Less allowance for impairment losses	–	(1,891,078)	(2,566,306)
	<b>₱83,431,446</b>	<b>₱53,021,034</b>	<b>₱38,023,413</b>

Trade receivables arise mainly from the mobile content and application development services rendered by the Group to its major customer, Globe Telecommunications, Inc. (GTI), and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As December 31, 2013, 2012 and 2011, the Group's receivables from GTI amounted to ₱76.92 million, ₱41.04 million and ₱29.04 million, respectively, which comprise 95%, 78% and 77%, respectively, of the total trade receivables of the Group (see Note 20).

Receivable from related parties are noninterest-bearing and are due and demandable (see Note 15).

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 pertain to individually impaired trade receivables.

The movements in allowance for impairment losses follow:

### 2013

	Trade receivables	Related parties (Note 15)	Total
At beginning of year	<b>₱1,891,078</b>	<b>₱–</b>	<b>₱1,891,078</b>
Provision for impairment losses (Note 13)*	<b>355,514</b>	–	<b>355,514</b>
Write off	<b>(2,246,592)</b>	–	<b>(2,246,592)</b>
At end of year	<b>₱–</b>	<b>₱–</b>	<b>₱–</b>

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



2012

	Trade receivables	Related parties (Note 15)	Total
At beginning of year	₱250,054	₱2,316,252	₱2,566,306
Provision for impairment losses (Note 13)	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

	Trade receivables	Related Parties (Note 15)	Total
At beginning of year	₱4,800	₱2,316,252	₱2,321,052
Provision for impairment losses (Note 13)	250,054	–	250,054
Write off	(4,800)	–	(4,800)
At end of year	₱250,054	₱2,316,252	₱2,566,306

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

**6. Other Current Assets**

This account consists of:

	2013	2012	2011
Deferred input VAT	₱1,670,213	₱593,657	₱912,889
Refundable deposits	374,371	178,000	130,000
Prepaid expenses	269,804	–	148,450
Creditable withholding taxes	–	534,557	2,038,315
	₱2,314,388	₱1,306,214	₱3,229,654

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

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

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

Creditable withholding taxes are available for offset against the income tax payable in the future periods.





## 7. Available-for-Sale Financial Assets

This account consists of:

	2013	2012	2011
Convertible bonds of Pico Candy Pte. Ltd.	<b>₱3,602,123</b>	<b>₱—</b>	<b>₱—</b>
Quoted share of Club Punta Fuego	<b>220,000</b>	230,000	210,000
	<b>₱3,822,123</b>	<b>₱230,000</b>	<b>₱210,000</b>

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

	2013	2012	2011
Balance at beginning of year	<b>(₱220,000)</b>	(₱240,000)	(₱250,000)
Unrealized gain (loss) on AFS financial asset	<b>(10,000)</b>	20,000	10,000
Balance at end of year	<b>(₱230,000)</b>	<b>(₱220,000)</b>	<b>(₱240,000)</b>

In August 2013, the Group invested in Pico Candy Pte. Ltd.'s 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

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

### 2012

	Transportation Equipment	Office Equipment	IT Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>						
At beginning of year	<b>₱—</b>	<b>₱2,310,027</b>	<b>₱3,028,028</b>	<b>₱976,748</b>	<b>₱419,147</b>	<b>₱6,733,950</b>
Additions	1,196,500	616,218	332,467	333,371	397,641	2,876,197
Retirement	—	—	—	—	(419,147)	(419,147)
At end of year	1,196,500	2,926,245	3,360,495	1,310,119	397,641	9,191,000
<b>Accumulated Depreciation and Amortization</b>						
At beginning of year	—	1,995,171	2,457,331	502,835	257,753	5,213,090
Depreciation and amortization	239,300	221,874	350,196	237,571	243,506	1,292,447
Retirement	—	—	—	—	(419,147)	(419,147)
At end of year	239,300	2,217,045	2,807,527	740,406	82,112	6,086,390
<b>Net Book Value</b>	<b>₱957,200</b>	<b>₱709,200</b>	<b>₱552,968</b>	<b>₱569,713</b>	<b>₱315,529</b>	<b>₱3,104,610</b>



## 2011

	Transportation Equipment	Office Equipment	IT Equipment	Furniture & Fixtures	Leasehold Improvements	Total
<b>Cost</b>						
At beginning of year	P-	P3,578,701	P4,164,325	P1,773,801	P467,425	P9,984,252
Additions	-	382,718	147,911	93,608	24,711	648,948
Retirement	-	(1,582,642)	(1,284,208)	(963,650)	-	(3,830,500)
Disposal	-	(68,750)	-	-	-	(68,750)
At end of year	-	2,310,027	3,028,028	903,759	492,136	6,733,950
<b>Accumulated Depreciation and Amortization</b>						
At beginning of year	-	3,282,240	3,287,875	1,236,460	104,156	7,910,731
Depreciation and amortization	-	299,392	453,664	157,036	226,586	1,136,678
Retirement	-	(1,582,642)	(1,284,208)	(963,650)	-	(3,830,500)
Disposals	-	(3,819)	-	-	-	(3,819)
At end of year	-	1,995,171	2,457,331	429,846	330,742	5,213,090
Net Book Value	P-	P314,856	P570,697	P473,913	P161,394	P1,520,860

Depreciation and amortization are charged as follows:

	2013	2012	2011
Cost of services (Note 12)	<b>P292,977</b>	P179,995	P287,788
General and administrative expenses (Note 13)	<b>1,897,545</b>	1,112,452	848,890
	<b>P2,190,522</b>	P1,292,447	P1,136,678

The Group's fully depreciated property and equipment with aggregate cost of P2.48 million, P3.81 million and P2.88 million are still in use as of December 31, 2013, 2012 and 2011, respectively.

## 9. Other Noncurrent Assets

Other noncurrent assets pertain to security deposits for the rental of office spaces which can be refunded upon the termination of the lease contract and advances which are applicable to the last month's rent. As of December 31, 2013, 2012 and 2011, the Group's other noncurrent assets amounted to P0.12 million, P0.52 million and P0.28 million, respectively.

## 10. Accounts and Other Payables

This account consists of:

	2013	2012	2011
Payable to related parties	<b>P11,228,326</b>	P4,046,433	P3,455,145
Trade payable	<b>10,179,143</b>	8,354,910	3,642,864
Taxes payable	<b>8,848,969</b>	5,753,212	1,903,413
Deferred output VAT	<b>5,650,871</b>	1,800,299	3,674,012
Accrued expenses	<b>1,898,631</b>	1,941,652	252,996
Others	<b>634,499</b>	167,685	129,637
	<b>P38,440,439</b>	P22,064,191	P13,058,067

Payable to related parties is noninterest-bearing and is due and demandable (see Note 15).



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

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 within one year.

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

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.

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## 11. Service Income

Service income, amounting to ₱251.81 million, ₱136.04 million and ₱95.31 million in 2013, 2012 and 2011, respectively, pertain to revenues earned from mobile content services and mobile application development services rendered by the Group to its major customer, GTI, and other telecommunication companies.

In 2013, 2012 and 2011, the Group's revenue from GTI amounted to ₱238.86 million, ₱118.50 million and ₱82.92 million, respectively, which comprise approximately 95%, 87% and 87%, respectively, of the total service income of the Group (see Note 20).

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## 12. Cost of Services

This account consists of:

	2013	2012	2011
Contractual services (Note 15)	<b>₱37,505,321</b>	₱18,159,451	₱22,704,120
Salaries, wages and employee benefits	<b>32,413,719</b>	26,136,519	21,929,303
Web hosting	<b>7,702,567</b>	7,527,663	6,733,748
Professional fee	<b>3,407,185</b>	3,502,608	1,883,984
Marketing and promotions	<b>1,929,812</b>	3,266,179	488,027
Rent (Note 14)	<b>1,859,345</b>	1,816,836	1,424,404
Utilities	<b>1,313,875</b>	699,628	674,561
Commission	<b>1,055,556</b>	380,556	991,923
Transportation and travel	<b>332,689</b>	304,293	—
Depreciation and amortization (Note 8)	<b>292,977</b>	179,995	287,788
Others	<b>1,548,504</b>	1,830,465	250,511
	<b>₱89,361,550</b>	₱63,804,193	₱57,368,369



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**13. General and Administrative Expenses**

This account consists of:

	2013	2012	2011
Supplies	<b>₱3,581,395</b>	₱2,110,539	₱1,316,843
Transportation and travel	<b>3,553,198</b>	1,564,967	1,245,445
Salaries, wages and employee benefits	<b>4,362,105</b>	2,100,166	1,809,723
Entertainment, amusement and recreation	<b>2,284,633</b>	1,455,961	1,340,073
Professional fees	<b>2,112,290</b>	352,000	311,580
Depreciation and amortization (Note 8)	<b>1,897,545</b>	1,112,452	848,890
Rent (Note 14)	<b>326,785</b>	283,771	240,167
Utilities	<b>278,449</b>	1,082,877	1,077,282
Insurance	<b>602,340</b>	297,543	157,599
Association dues	<b>509,672</b>	191,898	125,786
Repairs and maintenance	<b>471,035</b>	108,613	12,886
Taxes and licenses	<b>385,854</b>	696,881	712,466
Provision for impairment losses (Note 5)	<b>317,424</b>	1,641,024	250,054
Provision for probable losses	–	1,620,501	–
Loss on asset write off	–	579,356	–
Advertising	–	81,600	16,320
Foreign exchange loss	–	56,421	–
Miscellaneous	<b>952,374</b>	1,456,538	704,294
	<b>₱21,635,099</b>	₱16,793,108	₱10,169,408

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**14. 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 executed a noncancellable 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 Parent Company renewed its contract with Trends and Technologies Holdings, Inc. for a period of four months commencing on May 1, 2014 and expiring on August 31, 2014. The



Parent Company has no intention to further extend the lease period beyond August 31, 2014 in anticipation of its transfer to a new office space on or before August 31, 2014. The applicable rate per month is ₱0.10 million.

- d. The Subsidiary entered into a lease agreement with Asian Diamond Plans, Inc. (AADI) 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 into another agreement with AADI for the adjacent unit for a period of one year commencing on September 17, 2012 with an applicable rate of ₱0.02 million per month.

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱2.19 million and ₱2.10 million, ₱1.66 million in 2013, 2012 and 2011, respectively (see Notes 12 and 13).

The future minimum lease payments under noncancellable operating leases follow:

	2013	2012	2011
Within one year	<b>₱685,382</b>	₱1,217,510	₱1,652,580
After one year but not more than 5 years	—	412,382	—
	<b>₱685,382</b>	<b>₱1,629,892</b>	<b>₱1,652,580</b>

## 15. 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 follow:

### 2013

			Outstanding Balances		
	Terms	Conditions	Amount/ Volume	Receivables	Payables
Entities under common control					
Cost of services	Noninterest-bearing	Unsecured, no impairment	₱20,473,747	₱–	₱9,678,326
Advances	Noninterest-bearing	Unsecured, no impairment	7,880,796	1,918,477	–
			28,354,543	1,918,477	9,678,326
Stockholders					
Advances	One year; noninterest-bearing	Unsecured, no impairment	1,550,000	–	1,550,000
			₱29,904,543	₱1,918,477	₱11,228,326



## 2012

			Outstanding Balances		
	Terms	Conditions	Amount/ Volume	Receivables	Payables
<b>Entities under common control</b>					
Cost of services	Noninterest-bearing	Unsecured, no impairment	₱10,279,799	₱–	₱2,849,933
Advances	Noninterest-bearing	Unsecured, no impairment	1,509,488	1,509,488	–
			11,789,287	1,509,488	2,849,933
<b>Stockholders</b>					
Advances	One year; noninterest-bearing	Unsecured, no impairment	1,196,500	157,298	1,196,500
			₱12,985,787	₱1,666,786	₱4,046,433

## 2011

			Outstanding Balances		
	Terms	Conditions	Amount/ Volume	Receivables	Payables
<b>Entities under common control</b>					
Cost of services	Noninterest-bearing	Unsecured, no impairment	₱16,006,856	₱–	₱3,321,128
Advances	Noninterest-bearing	Unsecured, no impairment	5,097,423	5,097,423	–
			21,104,279	5,097,423	3,321,128
<b>Stockholders</b>					
Advances	One year; noninterest-bearing	Unsecured, no impairment	24,859	18,770	134,017
			₱21,129,138	₱5,116,193	₱3,455,145

Entities under common control:

- On January 1, 2011, the Parent Company entered into a service agreement with Digital Storm, Inc. (DSI), wherein the latter will render services in favor of the Parent Company. The services include promotion of mobile applications jointly developed with the Parent Company and assistance in the deployment such applications in the Parent Company's programs and events. In return, the Parent Company shall pay DSI a certain percentage of the revenues generated from such applications.

In addition, the Group has outstanding receivables from DSI amounting to ₱1.61 million, ₱1.20 million and ₱2.78 million as of December 31, 2013, 2012 and 2011, respectively, for the operating expenditures incurred by the Group on its behalf.

- Transactions from Starfish Mobile Technologies Pty. pertain to advances for its operating expenditures amounting to ₱0.31 million as of December 31, 2013 and 2012 and ₱2.31 million as of December 31, 2011.

In 2012, the Parent Company has written off receivables from Starfish Mobile Technologies Pty. amounting to ₱2.31 million (see Note 5). The Parent Company does not expect that the receivables will be collected.



Stockholders:

- a. Transactions with stockholders pertain to advances for reimbursement of common expenses incurred by the stockholders in behalf of the stockholders and advances for the acquisition of property and equipment and operating expenditures that were shouldered by the stockholders on the Group's behalf.

*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, ₱9.06 million and ₱1.99 million in 2013, 2012 and 2011.

## 16. Income Taxes

Provision for income tax consists of:

	2013	2012	2011
Current	₱27,972,942	₱9,155,778	₱4,363,522
Final	34,749	22,128	15,086
Deferred	(7,411,443)	8,167,132	3,304,238
	<b>₱20,596,248</b>	<b>₱17,345,038</b>	<b>₱7,682,846</b>

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

Net deferred tax assets amounting to ₱1.69 million as of December 31, 2013 consist of deferred tax assets on accrued expenses and deferred tax liabilities on unrealized foreign currency exchange gain. There were no net deferred tax assets as of December 31, 2012 and 2011.

Net deferred tax liabilities:

	2013	2012	2011
Deferred tax assets arising from:			
Accrued expenses	₱507,765	₱1,334,373	₱1,611,021
Allowance for impairment loss	—	567,323	75,016
Unrealized foreign currency exchange loss	—	16,926	5,564
NOLCO	—	—	1,296,401
	<b>507,765</b>	<b>1,918,622</b>	<b>2,988,002</b>

(Forward)



	2013	2012	2011
Deferred tax liabilities on:			
Accrued income	<b>₱9,100,838</b>	₱15,585,059	₱8,487,307
Unrealized foreign currency exchange gain	<b>18,623</b>	—	—
	<b>9,119,461</b>	15,585,059	8,487,307
Net deferred tax liabilities	<b>₱8,611,696</b>	₱13,666,437	₱5,499,305

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

	2013	2012	2011
Statutory income tax rate	<b>₱42,317,940</b>	₱16,667,211	₱8,354,039
Adjustments resulting from:			
Nondeductible expenses	<b>66,584</b>	689,277	137,995
Income under ITH	<b>(21,770,528)</b>	—	(373,115)
Change in unrecognized deferred tax assets	—	—	(427,912)
Interest income subjected to final tax	<b>(17,748)</b>	(11,450)	(8,161)
Provision for income tax	<b>₱20,596,248</b>	₱17,345,038	₱7,682,846

#### 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, nil and ₱0.37 million in 2013, 2012 and 2011, respectively.





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## 17. Equity

### Capital Stock

The Parent Company has authorized capital stock of ₱10.00 million divided into 10.00 million common shares at ₱1.00 par values. As of December 31, 2013, 2012 and 2011, total number of shares issued and outstanding totaled 3.25 million shares for a total amount of ₱3.25 million.

### Retained Earnings

#### *Appropriations*

On December 27, 2013, 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 ₱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.

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, 2012 and 2011 follow:

	2013	2012	2011
Capital stock	<b>₱3,250,000</b>	₱3,250,000	₱3,250,000
Retained earnings	<b>108,924,350</b>	28,481,090	21,955,730
	<b>₱112,174,350</b>	₱31,731,090	₱25,205,730

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 in 2013, 2012 and 2011.

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#### 18. Noncontrolling Interests

The Parent Company has material noncontrolling interests to its subsidiary as follows:

	2013	2012	2011
Accumulated balances of noncontrolling interest	<b>₱9,732,087</b>	₱8,828,463	₱4,667,216
Profit allocated to noncontrolling interest	<b>7,320,291</b>	7,797,358	2,196,018

The summarized financial information of this subsidiary as of December 31, 2013, 2012 and 2011 is provided below. This information is based on the amounts before inter-company elimination.

	2013	2012	2011
<b>Statements of financial position</b>			
Current assets	<b>₱54,063,246</b>	₱48,057,303	₱20,886,262
Noncurrent assets	<b>2,949,127</b>	1,440,135	310,111
Current liabilities	<b>20,594,705</b>	13,711,945	3,616,865
Dividends paid to noncontrolling interests	<b>6,416,667</b>	3,636,111	—



	2013	2012	2011
<b>Statements of comprehensive income</b>			
Revenue	<b>₱61,914,484</b>	₱58,175,156	₱26,790,517
Total comprehensive income attributable to:			
Equity holders of Xurpas, Inc.	<b>13,594,826</b>	14,480,809	4,078,318
Noncontrolling interests	<b>7,320,291</b>	7,797,358	2,196,018
<b>Statements of cash flows</b>			
Net cash provided by operating activities	<b>32,703,077</b>	21,214,870	1,481,165
Net cash used in investing activities	<b>(2,855,148)</b>	(1,567,635)	(378,384)
Net cash used in financing activities	<b>(18,333,330)</b>	(10,388,888)	—

## 19. Earnings Per Share

Basic/diluted earnings per share were computed as follows:

	2013	2012	2011
a. Net income attributable to the equity holders of Xurpas, Inc.	<b>₱113,143,260</b>	₱30,414,973	₱17,967,931
b. Weighted average number of outstanding shares	<b>23,156,250</b>	23,156,250	23,156,250
c. Earnings per share (a/b)	<b>₱4.89</b>	₱1.31	₱0.78

Earnings per share is calculated using the consolidated net income attributable to the equity holders of the Parent Company divided by the weighted average number of shares. To determine the weighted average number of shares, the stock dividend declaration, which was approved by the BOD on May 5, 2014 and issued on June 25, 2014, was retroactively adjusted (see Note 22).

## 20. Financial Instruments

### Fair Value

As of December 31, 2013, 2012 and 2011, the Group's financial instruments whose carrying values approximate their fair values due to their short-term nature are "Cash", "Receivables", "Accounts and other payables" (excluding "Deferred output VAT", "Taxes payable" and statutory payables included as "Others").

The Group measures its AFS financial assets at fair value at each reporting date.

AFS quoted equity securities - Fair value is based on quoted prices published in the market and debt securities.



#### Fair Value Hierarchy

The Group uses the following three-level hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

AFS financial assets-quoted equity securities amounting to ₱0.22 million, ₱0.23 million and ₱0.21 million as of December 31, 2013, 2012 and 2011, respectively, were classified under Level 1 category.

There have been no reclassifications from Level 1 to Level 2 or 3 categories in 2013.

#### Financial Risk Management and Objectives and Policies

The Group's financial instruments comprise cash, receivable, AFS financial assets, and accounts and other payables (excluding taxes payable and statutory payables), which arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.

Exposure to credit risk, liquidity risk and foreign currency risk arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Group's risk management policies are summarized below:

#### Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation.

The Group's credit risk is primarily attributable to cash and receivables. To manage credit risk, the Group monitors its exposure to credit risk on a continuous basis.

As disclosed in Note 5, the Group has concentration of credit risk with receivable from GTI, its largest customer, representing 95%, 78% and 77% of its total trade receivables as of December 31, 2013, 2012 and 2011, respectively.

The Group has an agreement with GTI, wherein the former will provide mobile content services and mobile application development services to the latter in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile content services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI's mobile phone subscribers. Mobile application development, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI's mobile content products. In return, GTI shall pay the Parent Company a certain percentage of the revenues generated from such products.



The Group adheres to fixed limits and guidelines in its dealings with counterparty banks. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, the Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

The Group's maximum exposure to credit risk as of December 31, 2013, 2012 and 2011 is equal to the carrying values of its financial assets.

The aging analysis of receivables presented per class follows:

### 2013

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	Total
		<30 days	30 to <90 days	>90 days		
Trade receivable	₱64,478,790	₱707,048	₱15,319,379	₱514,849	₱—	₱81,020,066
Receivable from related parties	1,609,646	—	—	308,831	—	1,918,477
Advances to employees	490,088	—	—	—	—	490,088
Others	2,815	—	—	—	—	2,815
	₱66,581,339	₱707,048	₱15,319,379	₱823,680	₱—	₱83,431,446

### 2012

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	Total
		<30 days	30 to <90 days	>90 days		
Trade receivable	₱36,520,174	₱1,253,558	₱10,372,588	₱2,654,562	₱1,891,078	₱52,691,960
Receivable from related parties	1,357,955	—	—	308,831	—	1,666,786
Advances to employees	499,635	—	—	—	—	499,635
Others	53,731	—	—	—	—	53,731
	₱38,431,495	₱1,253,558	₱10,372,588	₱2,963,393	₱1,891,078	₱54,912,112

### 2011

	Neither Past Due nor Impaired	Past Due but Not Impaired			Impaired Financial Assets	Total
		<30 days	30 to <90 days	>90 days		
Trade receivable	₱29,055,281	₱1,992,772	₱742,625	₱2,735,648	₱250,054	₱34,776,380
Receivable from related parties	2,799,941	—	—	—	2,316,252	5,116,193
Advances to employees	686,825	—	—	—	—	686,825
Others	10,321	—	—	—	—	10,321
	₱32,552,368	₱1,992,772	₱742,625	₱2,735,648	₱2,566,306	₱40,589,719

The tables show the credit quality by class of the Group's financial assets as of December 31, 2013, 2012 and 2011.

### 2013

	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired Financial Assets	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱86,492,675	₱—	₱—	₱—	₱—	₱86,492,675
Receivables:						
Trade receivable	64,478,790	—	—	16,541,276	—	81,020,066
Receivable from related parties	1,609,646	—	—	308,831	—	1,918,477
Advances to employees	490,088	—	—	—	—	490,088
Others	2,815	—	—	—	—	2,815
AFS financial assets	3,822,123	—	—	—	—	3,822,123
	₱156,896,137	₱—	₱—	₱16,850,107	₱—	₱173,746,244



## 2012

	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired Financial Assets	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱20,769,118	₱–	₱–	₱–	₱–	₱20,769,118
Receivables:						
Trade receivable	36,520,174	–	–	14,280,708	1,891,078	52,691,960
Receivable from related parties	1,357,955	–	–	308,831	–	1,666,786
Advances to employees	499,635	–	–	–	–	499,635
Others	53,731	–	–	–	–	53,731
AFS quoted equity securities	230,000	–	–	–	–	230,000
	₱59,430,613	₱–	₱–	₱14,589,539	₱1,891,078	₱75,911,230

## 2011

	Neither Past Due nor Impaired			Past Due but Not Impaired	Impaired Financial Assets	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱12,094,397	₱–	₱–	₱–	₱–	₱12,094,397
Receivables:						
Trade receivable	29,055,281	–	–	5,471,045	250,054	34,776,380
Receivable from related parties	2,799,941	–	–	–	2,316,252	5,116,193
Advances to employees	686,825	–	–	–	–	686,825
Others	10,321	–	–	–	–	10,321
AFS quoted equity securities	210,000	–	–	–	–	210,000
	₱44,856,765	₱–	₱–	₱5,471,045	₱2,566,306	₱52,894,116

The credit quality of the financial assets was determined as follows:

Cash in banks and AFS financial assets - based on the nature of the counterparty.

Receivables- high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

### *Liquidity Risk*

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirement, finance capital expenditures and service maturing debts. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available short-term and long term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD.

The maturity profile of the Group's financial assets and financial liabilities at December 31, 2013, 2012 and 2011 are based on contractual undiscounted payments.

As of December 31, 2013, 2012 and 2011, the Group's financial assets and financial liabilities have a maturity of less than one year.

### *Foreign Currency Risk*

The Group holds dollar-denominated deposits which can be affected by fluctuations of foreign currency exchange. Other than this, the Group does not have exposure to foreign currency risk, as most of its transactions are denominated in Philippine peso, its functional currency.



The following table shows the Group's foreign currency-denominated monetary and their peso equivalents as of December 31, 2013, 2012 and 2011:

	2013		2012		2011	
	US Dollar	Php Equivalent	US Dollar	Php Equivalent	US Dollar	Php Equivalent
<b>Asset</b>						
Cash in banks	\$19,753	₱877,047	\$20,278	₱832,430	\$21,078	₱924,077

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rate used was ₱44.40, ₱41.05 and ₱43.84 in 2013, 2012 and 2011, respectively, to US\$1.00, the Philippine Dealings Exchange (PDEX) closing rates.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine Peso-US dollar exchange rate, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2013, 2012 and 2011. There is no other impact on the Group's equity other than those already affecting the profit or loss.

Increase (decrease) in exchange rate	Effect on profit before tax		
	2013	2012	2011
₱1.00	₱896,800	₱852,708	₱924,077
(1.00)	(896,800)	(852,708)	(924,077)

## 21. Segment Reporting

The industry segments where the Group operates follow:

- Mobile content services - includes airtime management, content development and management and marketing and advertising solutions
- Mobile application development - includes platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services

The following tables regarding business segment revenue and profit information in 2013, 2012 and 2011 follow:

### 2013

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
<b>Revenue</b>				
Sales to external customers	₱190,011,822	₱61,802,421	₱-	₱251,814,243
Operating expenses	(79,048,529)	(31,948,120)	-	(110,996,649)
Operating profit	110,963,293	29,854,301	-	140,817,594
Dividend income	11,916,667	-	(11,916,667)	-
Interest income	124,998	49,988	-	174,986
(Forward)				



	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
Other income	₱5,144	₱62,075	₱–	₱67,219
Provision for income tax	(11,545,002)	(9,051,246)	–	(20,596,248)
Net income	₱111,465,100	₱20,915,118	(₱11,916,667)	₱120,463,551
Net income attributable to:				
Equity holders of Xurpas, Inc.				₱113,143,260
Noncontrolling interests				7,320,291
				₱120,463,551

## 2012

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
Revenue				
Sales to external customers	₱77,916,174	₱58,126,266	₱–	₱136,042,440
Operating expenses	(54,977,176)	(25,620,125)	–	(80,597,301)
Operating profit	22,938,998	32,506,141	–	55,445,139
Dividend income	6,752,777	–	(6,752,777)	–
Interest income	63,340	48,590	–	111,930
Other income	–	300	–	300
Provision for income tax	(7,068,174)	(10,276,864)	–	(17,345,038)
Net income	₱22,686,941	₱22,278,167	(₱6,752,777)	₱38,212,331
Net income attributable to:				
Equity holders of Xurpas, Inc.				₱30,414,973
Noncontrolling interests				7,797,358
				₱38,212,331

## 2011

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
Revenue				
Sales to external customers	₱68,516,563	₱26,790,517	₱–	₱95,307,080
Operating expenses	(49,886,305)	(17,651,472)	–	(67,537,777)
Operating profit	18,630,258	9,139,045	–	27,769,303
Dividend income	–	–	–	–
Interest income	61,794	15,698	–	77,492
Other income	–	–	–	–
Provision for income tax	(4,802,439)	(2,880,407)	–	(7,682,846)
Net income	₱13,889,613	₱6,274,336	₱–	₱20,163,949
Net income attributable to:				
Equity holders of Xurpas, Inc.				₱17,967,931
Noncontrolling interests				2,196,018
				₱20,163,949





The following tables regarding business segment assets and liabilities as of December 31, 2013, 2012 and 2011:

## 2013

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
<b>Other information</b>				
Segment assets	₱127,291,198	₱57,012,374	(₱3,851,571)	₱180,452,001
Deferred tax assets - net	1,693,544	—	—	1,693,544
<b>Total Assets</b>	<b>₱128,984,742</b>	<b>₱57,012,374</b>	<b>(₱3,851,571)</b>	<b>₱182,145,545</b>
Segment liabilities	₱31,262,707	₱20,594,705	₱—	₱51,857,412
Deferred tax liabilities - net	—	8,611,696	—	8,611,696
<b>Total Liabilities</b>	<b>₱31,262,707</b>	<b>₱29,206,401</b>	<b>₱—</b>	<b>₱60,469,108</b>

## 2012

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
<b>Other information</b>				
Segment assets	₱33,311,921	₱49,497,438	(₱3,851,571)	₱78,957,788
Deferred tax assets - net	—	—	—	—
<b>Total Assets</b>	<b>₱33,311,921</b>	<b>₱49,497,438</b>	<b>(₱3,851,571)</b>	<b>₱78,957,788</b>
Segment liabilities	₱11,239,853	₱13,711,945	₱—	₱24,951,798
Deferred tax liabilities - net	3,105,127	10,561,310	—	13,666,437
<b>Total Liabilities</b>	<b>₱14,344,980</b>	<b>₱24,273,255</b>	<b>₱—</b>	<b>₱38,618,235</b>

## 2011

	Mobile content services	Mobile application development	Intersegment Adjustments	Consolidated
<b>Other information</b>				
Segment assets	₱38,030,202	₱21,196,373	(₱3,851,571)	₱55,375,004
Deferred tax assets - net	—	—	—	—
<b>Total Assets</b>	<b>₱38,030,202</b>	<b>₱21,196,373</b>	<b>(₱3,851,571)</b>	<b>₱55,375,004</b>
Segment liabilities	₱16,625,888	₱3,616,865	₱—	₱20,242,753
Deferred tax liabilities - net	1,254,701	4,244,604	—	5,499,305
<b>Total Liabilities</b>	<b>₱17,880,589</b>	<b>₱7,861,469</b>	<b>₱—</b>	<b>₱25,742,058</b>

## **22. Events After Reporting Period**

On May 2, 2014, the BOD approved the subscription and issuance of 6.75 million shares with par value of ₱1.00 per share from the unissued portion of its ₱10.00 million authorized capital stock.

On May 5, 2014, the BOD approved the following transactions:

- Increase in authorized capital stock from ₱10.00 million divided into 10.00 million shares with par value of ₱1.00 per share to ₱255.00 million divided into 255.00 million shares with par value of ₱1.00 per share.



- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱10.00 million to ₱255.00 million.
- Subscription of 61.25 million shares with par value of ₱1.00 per share, which represents twenty five percent of the additional increase in authorized capital stock.

On June 25, 2014, the following transactions occurred:

- SEC approved the application for the increase in authorized capital stock.
- SEC approved the amendments in the Articles of Incorporation amending the authorized capital stock.
- Issuance to the stockholders of the stock dividends amounting to ₱61.25 million, as approved by the BOD on May 5, 2014
- The Parent Company's BOD approved the appropriation of unrestricted retained earnings for stock dividend and cash dividend declaration amounting to ₱61.25 million and ₱36.00 million, respectively.

On July 10, 2014, the BOD approved the following transactions:

- Increase in authorized capital stock from ₱255.00 million divided into 255.00 million common shares at the par value of ₱1.00 each to ₱500.00 million divided into 500.00 million common shares at the par value of ₱1.00 each.
- Amendments of the Parent Company's Articles of Incorporation to increase the authorized capital stock from ₱255.00 million to ₱500.00 million.
- Subscription of 61.25 million shares with par value of ₱1.00 per share, which is paid in the form of stock dividends. These represent twenty five percent of the additional increase in authorized capital stock.

As of August 7, 2014, the Parent Company is in the process of filing with the SEC for the increase in authorized capital stock and amendments in the Articles of Incorporation.



**XURPAS, INC. AND SUBSIDIARY**  
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY**  
**SCHEDULES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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<b>Schedule</b>	<b>Contents</b>
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock
I	Reconciliation of Retained Earnings Available for Dividend Declaration
J	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsiidiaries
K	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards

**SCHEDULE A**

**XURPAS, INC. AND SUBSIDIARY**  
**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash on hand and in banks				
Cash on hand	₱—	₱10,000	₱—	₱—
Cash in banks				
Bank of the Philippine Islands				
Savings Account	—	85,648,943	—	173,279
US Dollar Account	—	833,666	—	1,687
Robinsons bank				
Savings Account	—	10,066	—	20
Receivables				
Trade	—	81,020,066	—	—
Advances to employees	—	490,088	—	—
Others	—	2,815	—	—
AFS financial assets				
Quoted equity securities	—	220,000	220,000	—
Unquoted debt securities	3,602,123	3,602,123	—	—
	₱3,602,123	₱171,837,767	₱220,000	₱174,986

**SCHEDULE B****XURPAS, INC. AND SUBSIDIARY**


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**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM  
DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND  
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)  
AS OF DECEMBER 31, 2013**


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Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Advances to employees	₱499,435	₱332,957	(₱342,304)	₱490,088	₱—	₱490,088
Accounts receivable from directors, officers, KMP and employees	157,298	1,500,000	(1,657,298)	—	—	—
	<b>₱656,733</b>	<b>₱1,832,957</b>	<b>(₱1,999,602)</b>	<b>₱490,088</b>	<b>₱—</b>	<b>₱490,088</b>

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**XURPAS, INC. AND SUBSIDIARY**


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**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM  
RELATED PARTIES WHICH ARE ELIMINATED DURING THE  
CONSOLIDATION OF FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2013**


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**Receivables from related parties which are eliminated during the consolidation**


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Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at end of period
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**Not Applicable**


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*The Group does not have receivables from related parties which are eliminated during the consolidation of financial statements.*

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**SCHEDULE D****XURPAS, INC. AND SUBSIDIARY****SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER  
ASSETS****AS OF DECEMBER 31, 2013**

<b>Intangible Assets - Other Assets</b>						
Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance

**Not Applicable*****The Group does not have intangible assets in its consolidated statements of financial position.***

**SCHEDULE E**

**XURPAS, INC. AND SUBSIDIARY**

**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT  
AS OF DECEMBER 31, 2013**

Long-term Debt			
Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
Not Applicable			
The Group does not have long-term debt in its consolidated statements of financial position.			



**XURPAS, INC. AND SUBSIDIARY**


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**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED  
PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)  
AS OF DECEMBER 31, 2013**


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<b>Indebtedness to related parties (Long-term loans from related companies)</b>		
<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
Digital Storm Inc. (DSI)*	₱2,849,933	<b>₱9,678,326</b>

\* The more than 10% increase in the receivables of DSI from Xurpas, Inc. is mainly attributable to December 2013 cost of services that were billed in January 2014.

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*The Group does not have long-term loans from related companies in its consolidated statements of financial position but the indebtedness to related party exceeds 5% of the total assets.*

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**XURPAS, INC. AND SUBSIDIARY****SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF  
OTHER ISSUERS****AS OF DECEMBER 31, 2013**

<b>Guarantees of Securities of Other Issuers</b>				
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
<b>Not Applicable</b>				
<i>The Group does not have any guarantees of securities of other issuing entities by the issuer for which the consolidated financial statement is filed.</i>				

**XURPAS, INC. AND SUBSIDIARY**  
**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**  
**AS OF DECEMBER 31, 2013**

<b>Capital Stock</b>						
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	10,000,000	3,250,000	—	—	3,250,000	—

**SCHEDULE I**

**XURPAS, INC. AND SUBSIDIARY**

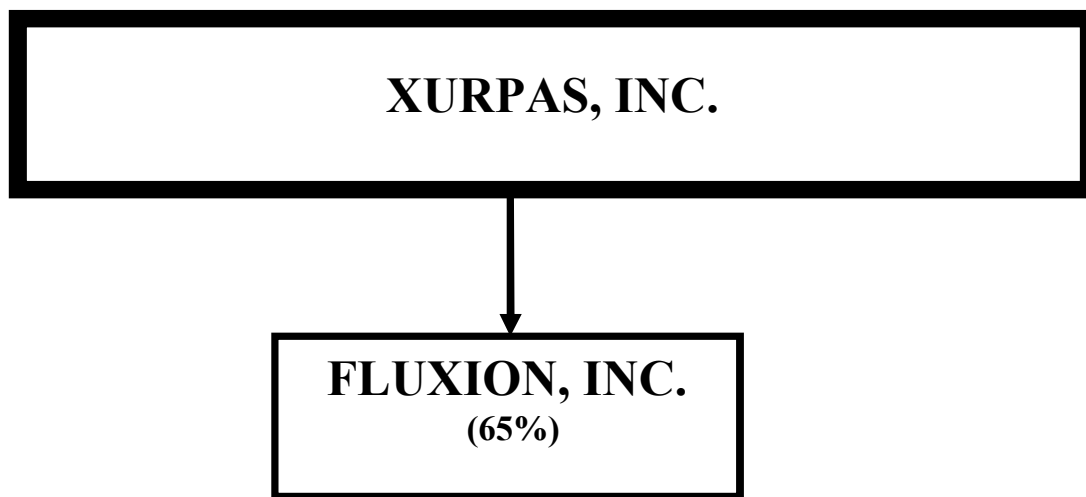
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE  
FOR DIVIDEND DECLARATION OF THE PARENT COMPANY  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Unappropriated Retained Earnings, beginning	₱15,936,942
Adjustments:	
(See adjustments in previous year's Reconciliation)	—
Unappropriated Retained Earnings, as adjusted, beginning	15,936,942
Net income during the period closed to retained earnings	111,465,097
Add (less):	
Cash dividends declared	(32,700,000)
Appropriation	(91,500,000)
	(124,200,000)
Unappropriated Retained Earnings, end available for dividend distribution	₱3,202,039

**XURPAS, INC. AND SUBSIDIARY**

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE  
COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND  
CO-SUBSIDIARIES**

**AS OF DECEMBER 31, 2013**



**XURPAS, INC. AND SUBSIDIARY****LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
<b>PFRS 11</b>	Joint Arrangements			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Balance Sheet Date	✓		
<b>PAS 11</b>	Construction Contracts			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance	✓		
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓	
<b>PAS 33</b>	Earnings per Share			✓
<b>PAS 34</b>	Interim Financial Reporting			✓
<b>PAS 36</b>	Impairment of Assets			✓
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets			✓
<b>PAS 38</b>	Intangible Assets			✓
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
<b>PAS 40</b>	Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 8</b>	<i>Scope of PFRS 2</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>SIC-21</b>	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

**XURPAS, INC. AND SUBSIDIARY****FINANCIAL RATIOS****FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Financial Ratios</b>	<b>2013</b>	<b>2012</b>
A. Current ratios		
Current ratios	332.16%	301.01%
Quick ratios	332.16%	301.01%
B. Solvency ratios/debt-to-equity ratios	<i>This is not applicable as the Group has no short term and long term debt as of December 31, 2013 and 2012</i>	
C. Asset-to-equity ratios	162.71%	250.57%
D. Interest rate coverage ratios	<i>This is not applicable as the Group has no interest expense incurred from short-term and long-term for the years ended December 31, 2013 and 2012</i>	
E. Profitability ratios		
Net income margin	44.93%	22.36%
Gross margin	64.61%	53.10%
Operating margin	56.89%	41.79%
Return on total assets	86.67%	45.28%
Return on equity	157.74%	107.71%