SEC Number 24986
File Number _________

NEXTSTAGE INC.

(Company's Full Name)

20/F Wynsum Corporate Plaza, F. Ortigas Ave., Ortigas Center Pasig City

(Company's Address)

687-0808

(Telephone Number)

December 31

(Fiscal Year Ending)
(month and day)

SEC Form 17-A Annual Report

Form Type

Amendment Designation (If applicable)

December 31, 2006

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended December 31, 2006

2. SEC Identification Number 24986   3. BIR Tax Identification No. 000-275-073-000

3. Exact name of issuer as specified in its charter **NEXTSTAGE INC. and Subsidiaries**

5. Philippines
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. 20/F Wynsum Corporate Plaza, F. Ortigas Ave. Ortigas Center, Pasig City
Address of principal office
1605
Postal Code

8. (63 2) 687-0808
Issuer's telephone number, including area code

9 1004 Centerpoint Bldg. Julia Vargas Ave. corner Garnet Road Ortigas Center, Pasig City
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, @ P1.00 par value	167,559,179 / P410,319,515

11. Are any or all of these securities listed on the Philippine Stock Exchange
Yes [x]   No [ ]

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or such shorter period that the registrant was required to file such reports);

    Yes [x]   No [   ]

    (b) has been subjected to such filing requirements for the past ninety (90) days

    Yes [x]   No [   ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

    The aggregate market value of the voting stock held by non-affiliates of the registrant is P6,027,324 based on 2,009,108 shares at the latest stock price of P3.00 per share. The last trading day of the Company's shares was on 26 April 2006. There has been no trading since then.

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PART 1- BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

In year 2000, PACEMCO Holdings Inc. ("PACEMCO") initiated a shift from a holding company with investments in cement manufacturing to one with investments in certain progressive areas of the technology sector.

PACEMCO was incorporated in 1964 as Pacific Cement Company, Incorporated to engage in the manufacture and trading of cement and related products. It started commercial operations in 1967 and was the sole cement producer in Northeastern Mindanao. In June 2000, the Securities and Exchange Commission ("SEC") approved the change in the primary purpose of the Company to that of a holding company and changed its corporate name to PACEMCO. Simultaneous therewith, PACEMCO spun off its cement manufacturing and mining facility and assets to Pacific Cement Philippines Inc. ("PACEMPHIL"), in exchange for 100% of the shares of stock of PACEMPHIL. This investment was subsequently sold in November 2000.

In the third quarter of year 2000, Messrs. Orlando B. Vea, David T. Fernando and Rafael A. Morales acquired approximately 98% of the total outstanding capital stock of PACEMCO from Mr. Jose L. Cortes and Composite Marketing Corporation with the intention of converting PACEMCO into a technology company.

In December 2000, PACEMCO acquired 100% of the capital stock of Nextstage Inc., a company established to take advantage of the opportunities in the rapidly growing technology sector and the emerging electronic economy. Subsequently, the stockholders of PACEMCO, during a meeting held in the first quarter of 2001, approved the proposed merger of PACEMCO with Nextstage. On June 11, 2001, the SEC approved the merger of PACEMCO and its subsidiary Nextstage, with PACEMCO as the surviving corporation. Subsequently, the SEC also approved the change in name from PACEMCO to NextStage Inc. ("NextStage" or "the Company").

In 2002, the Company implemented a Debt-to-equity conversion wherein it issued two million new shares in exchange for Shareholder advances/ Deposit for future subscriptions amounting to P225.9 million. In connection with this, the Company intends to do an offering of shares in compliance with the minimum public ownership set by the Philippine Stock Exchange. The timing will depend on the market condition and the general economic climate in the country.

Further, the Company implemented in 2003 a quasi-reorganization (as approved by the stockholders in the Annual Stockholders' Meeting held in November and approved by the SEC in December) in order to further reduce the Deficit. It involved first, the reduction in par value per share from P1 to P0.20, without changing the number of shares therefore resulting to additional paid-in capital of P216.2 million. The par value per share was then brought back to P1 since this is the required minimum par value per share for listed companies therefore reducing the number of shares outstanding to 54.1 million. The additional paid-in capital arising from this transaction was then applied against the P184.2 million Deficit as of December 31, 2002.

In the Annual Stockholders Meeting held October 1, 2004, the Company's stockholders approved the increase in capital from One hundred million shares (at P1 par) to One hundred seventy million shares (at P1 par). In support of the same, a total of 113,507,831 shares was issued to Perfect Research Technology Corporation ("PRTC") in exchange for the latter's shares in Technology Support Services, Inc. ("TSSI") equivalent to 100% of TSSI. The Company's increase in capital was approved by the SEC on August 18, 2005. As a result of the same, the Company now owns 100% of TSSI and is itself controlled by PRTC.

Nature of Business

As a holding company, NextStage's activities revolve around the management of its investments in shares of stock of its subsidiaries. As such, it is responsible for the long-term vision and strategies of the wholly-owned subsidiaries and in coordination with its partner in connection with its non-wholly –owned subsidiary. NextStage currently has three (3) subsidiaries, namely:

	% ownership
Mondex Philippines Inc. ("MXP")	90%
Infinit-e Asia Inc. ("Infinit-e Asia")	100%
Technology Support Services, Inc. ("TSSI")	100%

Before the acquisition of TSSI, the Company competed in two major industries: payments and applications development. In the payments business (through its subsidiary, MXP) it competes with other payment products such as debit and credit cards. The smart card payment system is a new addition to the industry and is expected to be given a boost with the move to EMV standard. Although this industry already has big established players in the country, the Company believes that its affiliation with MasterCard International, a well established international payments company, will enable it to effectively compete in this field. On the other hand, there are many small players in the software development industry. Those specializing on smart card solutions and applications such as the Company's subsidiary, Infinit-e Asia, are still quite few in number and are basically of the same size. However, almost all of these players make proprietary solutions unlike Infinit-e Asia which is MULTOS-based, an open smart card operating system which allows several application to reside on a single chip. These factors will enable the Company to effectively compete in the smart card applications development industry.

With the acquisition of TSSI, the Company is casting its nets wider, venturing further into the rapidly growing technology sector and the emerging electronic economy.

The industry where NextStage's activities revolve is a highly dynamic and technology driven one. To maintain its competitive edge, its subsidiaries must: (1) maintain its advanced technological stance, ensuring it by state-of-the-art equipment and a highly skilled workforce; (2) maintain a strong product development machinery through the employ of strategic content-provider partners; and (3) maintain a strong marketing approach in providing consumers the best mobile gaming facility in the country.

Significant transactions with related parties consist primarily of availment of non-interest bearing cash advances from stockholders and subsidiaries for working capital requirements and allocation of common expenses between the Parent Company and its subsidiaries. In managing its subsidiaries, functions such as Human Resources, Network Operations and Finance are provided by the Parent Company, utilizing both regular employees and third party consultants depending on needs vis-à-vis the costs involved. In addition, operating costs such as Rent, Association dues, Communications and Utilities are shared among the Parent Company and its subsidiaries. The costs incurred in this regard are allocated among the Parent Company and its subsidiaries based on an agreed ratio.

Aside from the Mondex Member License held by its subsidiary, MXP, the Company does not have other patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements. The Company is not aware of any existing or probable governmental regulation which has an effect on its business nor is it seeking any government approval for its principal products or services aside from those commonly required from all businesses. Amounts spent on development activities are not material.

In an effort to contain costs, the Parent company retrenched 5 of its regular employees in late 2004, leaving one regular employee. However, it maintained some employees on retainer basis to handle basic functions such as Finance, Technical and Human Resources of the Parent company and its subsidiaries. Upon acquisition of TSSI, these functions were transferred to TSSI personnel and on September 1, 2005, the Parent company's remaining employee was transferred to TSSI. The Company does not have a Collective Bargaining Agreement with employees which the Company does not expect to change.

Subsidiaries

Mondex Philippines Inc.

The Mondex scheme was terminated during the latter part of 2005 and the Mondex Card System Software is up for sale. Mondex Philippines Inc. has received a letter of intent from a third party, although the sale has not been consummated as of reporting date. Following below is a backgrounder on the nature of business of Mondex Philippines Inc.

Incorporated in December 13, 1999, MXP operates the first multi-application smart card system in the Philippines, available to institutions as a whole system package and to the retail market through the Mondex consumer card. It currently holds a member license from Mondex Asia Ltd. ("MXA") which owns the franchise to operate the Mondex scheme in Asia. MXP started commercial operations in 2002.

The Mondex scheme is an electronic cash ("e-cash") system that operates on a multi-application smart card. A smart card looks like an ordinary debit or credit card but with an embedded, integrated circuit chip that has memory and logic functionality. The microchip contains a "purse" in which the Mondex value is held electronically. The e-cash facility enables instant transfer of value between merchants and consumers. As the transfer does not require authorization, the transaction is offline. This facility can also be used for purchases online or in the internet.

Unlike other smart cards previously in use which only has a single purpose, the Mondex card has the capability to store several applications simultaneously, such as an ID system, timekeeping system, access controls, loyalty programs and club membership. This revolutionizes card usage since consumers can now carry just one card for several purposes. Therefore, the cost of issuing the card is maximized and the utility to the user is enhanced.

The multi-application feature of the Mondex system is made possible with MULTOS, an open smart card operating system. The operating system enables the smart card application to interact with the processing capabilities of the chip.

The implementation of the Mondex system requires the establishment of the base infrastructure system consisting of: (1) the back-end infrastructure which includes the One-Box System ("OBS") which is the main transaction server for the system and the other servers which supports the other components of the system such as the loyalty server and the web server; (2) the front-end infrastructure which includes the cards, top-up stations and merchant terminals, and: (3) the applications which include the e-cash facility, the loyalty application, the ID system and the access control system, among others.

MXP's infrastructure is already in place. As such, recurring purchases are limited to card and merchant terminal acquisitions. Because of the increasing popularity of the smart card technology abroad, there is a substantial demand from financial institutions, mobile phone manufacturers and other industries putting a downward pressure on smart card prices. With regard to the merchant terminals, the Company has an existing Supply Agreement with a supplier. The Company paid for 3,300 terminals out of which only 650 terminals have been delivered the balance of which will be delivered upon order of the Company. Moreover, there are a number of suppliers in the market therefore making MXP not dependent on a single or limited number of suppliers.

Mondex uses proven, state-of-the-art cryptography in order to ensure that payments can be made securely over nonsecure networks. In 1999, the Mondex system (including the MULTOS operating system) was awarded the ITSEC ("Information Technology Security Evaluation Criteria") certificate at E6 level, its highest level. By comparison, the GSM phones have an ITSEC E4 level security.

Mondex is the first multi-application smart card system in the Philippines; hence, there is still no direct competitor. However, Mondex as a card payment system competes with credit cards, debit cards and prepaid cards. But competition is more with prepaid payment cards because Mondex targets the "non-bankables" or those persons who have heavy cash transactions but with limited or no access to bank and credit card facilities.

As a distribution strategy, MXP is pushing mass customization for its target closed-communities such as schools, offices and associations. Focusing on closed-communities is a very cost-efficient approach to the creation of the cardholder critical mass while at the same time allowing MXP to leverage fully the multi-application feature of the Mondex card. The communities can take advantage of the whole range of applications such as ID system, payment system, timekeeping, access control and loyalty program, among others. They can actually select applications that they want to be included in their system. The standard applications may even be customized according to their specifications.

MXP currently has no regular employees, having retrenched its employees in January and October 2004. However, it has a pool of technical persons who may be tapped for technical services required by existing clients. Basic functions such as Network Operations, Human Resources and Finance, are serviced by the Parent Company. Its employees are not under a Collective Bargaining Agreement which the Company does not expect to change.

Infinit-e Asia Inc.

Infinit-e Asia was incorporated on July 8, 1999 as a software development company specializing on smart card and e-commerce solutions tailored to enhance the business of its clients by leveraging the use of technology. It is positioned to serve the global demand for applications development and systems integration in these two sectors that are among those expected to lead world-wide technology development in the next decade – e-commerce and smart cards.

The nucleus of Infinit-e Asia's competence is founded on the collective and converging experiences of its management team in the fields of information technology, mobile communication and banking and finance. Through continuous research and innovation and in partnership with established technology companies, Infinit-e Asia seeks to carve its niche in providing a universe of excellent and technologically-superior smart card and e-commerce solutions positioned to bring its clients to a competitive advantage.

Infinit-e Asia develops smart card solutions for both real and on-line applications and on both contact and contactless platform. It has the flexibility to utilize the development platform that best suits its clients' needs in order to provide an efficient and cost-effective solution. Its services range from Database Design and Integration to Application Development, Network or Systems Architecture.

Infinit-e Asia's spectrum of products and applications may be classified according to functionality: payments, data capture and security. As payment medium, smart cards are used as electronic purse for both real world and on-line transactions. It is preferable over other payment medium since it combines the liquidity and general acceptability of cash and the convenience of a credit or debit card. The smart card also has the ability to store large capacity of data and as such is very useful for data mining activities that require monitoring and managing huge volume of information. Furthermore, smart cards are also used in network security particularly as companies build public key infrastructures. These applications are not on stand-alone basis but may actually be combined and customized according to the specific requirements.

Its target market consists of schools, health care providers and government institutions. These markets usually require applications relating to security and data capture.

To this end, Infinit-e Asia developed an e-School system that addresses the various requirements of schools and universities such as identification, timekeeping (for school personnel), registration, report card and transcript generation and faculty load management. Likewise, health care providers will be able to benefit from the Company's Medical Health system which covers such applications as identification, medical records access, medical history database and knowledge learning and fraud management.

On the other hand, the applications relating to security is very useful to government institutions. In line with the present thrust for e-governance, the Company's e-Form solution provides a convenient and secure way of issuing and handling application forms electronically. The government will also benefit from the Transport Fare Collection System for use in its mass-transport infrastructure.

In addition to the above, other markets which the Company's technology and applications cater to are the airline industry for e-Ticketing and retail stores and chains for its Loyalty program.

The Company is registered with the Board of Investments as an Expanding IT Service Firm in the Field of Application Systems Software Development. It enjoys various incentives including a three (3) year income tax holiday.

Infinit-e Asia maintains contact with a pool of technical persons who may be tapped for outsourced services for project requirements. One of its former employees was rehired middle of 2005 and continues to be in Infinit-e's payroll to this date. Some of Infinit-e Asia's functions, such as Network Operations, Human Resources and Finance, are serviced by the Parent Company. Its employees are not under a Collective Bargaining Agreement which the Company does not expect to change.

Technology Support Services, Inc.

Technology Support Services, Inc.'s ("TSSI") business is aligned with global technology business developments such as Business Process Outsourcing (BPO), Applications Service Providers (ASP) and Managed Service Providers (MSP) using mobile and internet access. TSSI was incorporated and registered with the Securities and Exchange Commission on February 9, 1999 but did not have any transactions from the date of incorporation up to May 31, 2004. TSSI then engaged in preoperating activities including, but not limited to, systems implementation and integration, hiring and training personnel throughout most of the year. During this time also, it signed a MOA with its first major client, basically to provide its technical know-how (including equipment, software and manpower) in order for the client to establish, operate, centralize, and regulate Internet, Mobile and Multi-Media gaming. TSSI launched its initial phase of commercial operations in October 2006, establishing contracts with content providers and consequently firming up its product portfolio, and also establishing its retail and distribution networks to be able to deliver the product to its market.

As of reporting date, TSSI has 20 regular employees.

Item 2. Properties

The Company's assets consist primarily of property and equipment and intangible assets. Details of these assets are as follows:

<u>NextStage</u>

The company does not maintain any properties now. The computer equipment, movable leasehold improvements and office furniture and fixtures, most of which have been fully depreciated, were sold as one lot to TSSI in 2004. The computer equipment under capital lease agreement with a supplier was eventually purchased by TSSI from the supplier. In December 2004, the Company transferred to share office space with TSSI at 20/F Wynsum Corporate Plaza, F. Ortigas, Jr. Road, Ortigas Center, Pasig City. *(See TSSI below for lease details)*

The Company does not expect to acquire other properties in the ensuing year.

Subsidiaries

MXP

MXP's assets consist mainly of intangible assets, consisting mainly of a non-exclusive member license from Mondex Asia Pte Ltd. ("MXA") for the right to operate the Mondex scheme in the Philippines. It also has system software used in its smart card operations business consisting of the e-purse systems and OBS system software.

Infinit-e Asia Inc.

Infinit-e Asia Inc. has no remaining property & equipment and does not expect to acquire properties in the ensuing year.

TSSI

TSSI's assets consist mainly of hardware and software which the company uses in its business of providing end-to-end business solutions. Other properties are vehicles, leasehold improvements, office equipment and furniture and fixtures. Attached as Annex A is a listing of the company's property and equipment setting out the date of acquisition, particulars, acquisition cost, location and condition.

TSSI leases its office and eight (8) parking slots located at Wynsum Corporate Plaza, F. Ortigas, Jr. Road, Ortigas, Pasig City. Details of the lease are as follows:

Original Lessor: Wynsum Realty Developer, Inc.
New Lessor (unit purchased from original lessor): International Exchange Bank
Area: 313.35 sq. m. office space + 8 parking slots within the building
Office rental rate: P300.00 per sq. m. per month
Parking slot rate: P4,000.00 per slot per month
Term: 2 years, beginning from December 1, 2004 and expiring on November 30, 2006. The lease renewal is under negotiation as of reporting date

Item 3. Legal Proceedings

This is a complaint filed by Fuller International Inc. ("Fuller") and FLS Automation A/S ("FLSA") against Nextstage Inc. ("Nexstage") and Pacific Cement Philippines, Inc. ("Pacific Cement") for (a) the declaration of nullity of a Deed of Assignment dated May 23, 2000 between Pacific Cement Company Inc. ("PACEMCO", the predecessor in interest of Nextstage), and Pacific Cement (the "Deed of Assignment"), (b) the constitution of a trust relationship between Nexstage and Pacific Cement on the one hand, and plaintiffs on the other hand, insofar as the assets of NextStage in the possession of Pacific Cement are concerned, and (c) damages.

Plaintiffs allege that on February 18, 2000 and April 10, 2000, PACEMCO entered into separate Memoranda of Agreement ("MOA") with FLSA and Fuller (the MOA with FLSA will be hereinafter referred to as the "FLSA MOA", while the MOA with Fuller will be hereinafter referred to as the "Fuller MOA") to settle its outstanding obligations to the latter amounting to US$320,821.65 and US$247,611.53, respectively. Under the FLSA and Fuller MOA, PACEMCO allegedly guaranteed to pay its outstanding obligation to FLSA and Fuller by the issuance of PACEMCO redeemable shares.

Plaintiffs likewise allege that on May 23, 2000, without the consent of its creditors, including plaintiffs, and with it issuing redeemable preferred shares in favor of plaintiffs, PACEMCO entered into a Deed of Assignment with Pacific Cement, where (a) PACEMCO's cement manufacturing assets were transferred to Pacific Cement in exchange for Pacific Cement's 24,932,913 common shares with par value of P1.00, and (b) PACEMCO assigned and transferred to Pacific Cement all its outstanding obligations appearing in its AFS as of December 31, 1999.

Subsequently, PACEMCO merged with Nexstage, Inc., with Pacific Holdings, Inc. as the surviving entity. Later on, Pacific Holdings Inc. changed its name to Nexstage.

Plaintiffs claim that PACEMCO's act of entering into the Deed of Assignment without the consent of plaintiffs and without the former issuing redeemable preferred shares to plaintiffs, constitute a breach of PACEMCO's contractual obligations, which entitles plaintiffs to the rescission of the MOAs and the payment of damages in their favor. They likewise claim that since the assignment of PACEMCO's assets to Pacific Cement was made with the cooperation of and in conspiracy with, Pacific Cement, Pacific Cement should be held solidarily liable to plaintiffs for all the outstanding amounts. In addition, plaintiffs also claim that the transfer by PACEMCO of its assets to Pacific Cement without the knowledge and prior consent of plaintiffs constitutes a violation of the Bulk Sales Law.

Defendants Nextstage and Pacific Cement filed separate Answers with Counterclaims but similarly contending that (a) the lower court has no jurisdiction over the case as summons had not been properly served; (b) plaintiffs have no legal capacity to sue because they are foreign corporations engaged in business in the Philippines without the necessary license from the Securities and Exchange Commission; and (c) the complaint fails to state a cause of action. Both defendants also claimed damages against plaintiffs.

Plaintiffs filed Replies to the Answers with Counterclaims of both defendants.

The parties submitted their respective Pre-trial Briefs and after the conduct of pre-trial, the lower court issued its Pre-trial Order on April 14, 2003.

Plaintiffs presented their evidence consisting of depositions upon written interrogatories of its witnesses. Before the presentation of defendants' evidence, plaintiffs and defendant Pacific Cement entered into a Compromise Agreement dated August 29, 2006 (the "Compromise Agreement"). Upon plaintiffs' and defendant Pacific Cement's Joint Motion to Approve, the lower court issued an Order dated December 8, 2006 approving the Compromise Agreement subject to certain conditions. Moreover, the lower court archived the case considering that defendant Pacific Cement assumed the payment of the entire obligation being claimed by plaintiffs in their complaint, including that of defendant Nextstage. The archival of the case is, however, without prejudice to the prosecution thereof by the plaintiffs should defendant Pacific Cement fail to comply with terms and conditions of the Compromise Agreement as approved.

Plaintiffs filed a Motion for Partial Reconsideration questioning the archival of the case insofar as defendant Nextstage is concerned. Defendant Nextstage filed an Opposition to this motion on March 12, 2007.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders for the fourth quarter of 2006.

PART I1- OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

(a) Market Information

The Company's common equity is traded in the Philippine Stock Exchange. However, in the first, second and fourth quarters of 2005 and the first, third and fourth quarter of 2006, the company's common equity was not traded.

As of latest practicable trading date, the Company's shares traded as follows:

Latest Price as of the last trading date, 26 April 2006

High: Php 3.00 Low: Php 3.00

	2006		2005	
	High	Low	High	Low
First Quarter	Not traded		Not traded	
Second Quarter	Php 3.0	Php 3.0	Not traded	
Third Quarter	Not traded		P3.00	P3.00

Fourth Quarter	Not traded	Not traded

(b) Holders

The total subscribed and outstanding common shares of stock of the Company as of December 31, 2006 is 167,559,179. The top 20 shareholders of record as of December 31, 2006 are as follows:

Name	Amount and nature of ownership	% ownership
Perfect Research Technology Corporation	113,507,831/ R	67.74
David T. Fernando	20,970,314/ R	12.52
Orlando B. Vea	20,830,760/ R	12.43
Rafael A. Morales	10,387,061/ R	6.19
Composite Marketing Corp.	999,995	0.60
Felix G. Chung	637,847	0.38
Leonel A. Santos	55,274	0.03
Ma. Paz Alcita C. Galvan	9,000	0.01
Mario B. Cornista	7,599	0.00
Mario M. Yambot	5,300	0.00
Southern Phils. Devt. Authority	4,200	0.00
Lydia C. San Juan	4,000	0.00
Anthony H. Strike	3,820	0.00
Inocencio R. Cortes	3,284	0.00
Raymundo A. Yap	2,980	0.00
Zenaida M. Strike	2,820	0.00
Cezar G. Siruelo Jr.	2,768	0.00
Alfredo B. Almonguera Jr.	2,680	0.00
James Chiongbian	2,120	0.00
Greta T. de Ramos	2,080	0.00
Teodoro V. Diez	1,916	0.00
Jose R. Elape	1,900	0.00

(c) Dividends

No dividends were paid for the last three years. There are no restrictions that limit the payment of dividends on common shares.

(d) Recent Sales of Unregistered Securities

Sometime in the last quarter of 2004, the Company decided to acquire Technology Support Services, Inc. (TSSI), a company engaged in the business of establishing and operating a proprietary and customized internet and mobile intermediate platform (IMIP) and is a service provider to gaming related businesses.

TSSI is wholly owned by Perfect Research Technology Corporation (PRTC) with which the Company agreed to a share-swap arrangement whereby the Company will issue new shares in favor of PRTC in exchange for shares of stock of the latter in TSSI. The Share Swap Agreement was executed in August 2004 covering a total of 113,507,831 common shares with a total par value of P113,507,831.00. No underwriter was employed to effect the transaction because the shares were issued solely to PRTC. In exchange, the Company received 100% of the total issued and outstanding capital stock of TSSI equivalent to 402,500 shares with a total par value of P40,250,000.00.

Pursuant thereto, the Company filed in 2005 for the exemption from registration of its proposed issuance of 113,507,831 shares at par value of which, 45,948,652 shares were to be issued from out of the Company's authorized but unissued capital stock, and the balance of 67,559,179 shares were to be issued from out of an increase in capital stock of the Company from P100 million to P170 million. Pursuant to Section 10.1 paragraphs (e) and (k) of the Securities Regulation Code, the SEC confirmed the exemption of the issuance of 113,507,831 shares from registration in its letter to the Company dated 18 August 2005 and Resolution dated 19 August 2005.

Item 6. Management Discussion and Analysis

The Company went through a series of corporate restructuring activities that affected its financial condition and the results of its operations for the Years ended December 31, 2003, 2004 and 2005. Below is a summary of these activities.

December 2003	SEC approved the Company's quasi-reorganization in which the par value per share was decreased to P0.20 from P1, without changing the number of shares, and its eventual increase back to P1 therefore resulting to the decrease in the number of shares. This resulted to Additional paid-in capital of P216 million which was used to offset the Company's P184 million deficit as of December 31, 2001.
October 2004	The Company approved the share swap arrangement with Perfect Research Technology Corporation for the acquisition of Technology Support Services, Inc. pursuant to which, the Company will issue a total of 113,507,831 new shares.
August 2005	SEC approved the application for increase in capital stock from P100,000,000.00 to P170,000,000.00 and the issuance of a total of 113,507,831 common shares partly from out of the Company's authorized but unissued capital stock and partly in support of said increase in capital stock.

The Company's business is not subject to seasonality or cyclicality but is subject to fluctuations since revenue from software development depends on the number and value of projects closed with clients.

The Company changed its accounting policy with respect to preoperating expenses to conform with SFAS 398/IAS 38 on "Intangible Assets" effective in 2003. This change has been applied retroactively.

Consequently, the preoperating expenses at January 1, 2002 previously deferred in the balance sheet were treated as an adjustment to the opening balance of the Deficit at January 1, 2002. In addition, Net loss for 2002 was adjusted. This restatement is discussed in detail in the following sections.

In order to monitor the performance of the Company and its subsidiaries, Management has established the following Key Performance Indicators:

- Gross profit

  In addition to the overall Gross profit target, the Company also looks into the Gross profit performance of each closed community it services and each project or contract, treating each one as a Profit center. In fact, this is a criterion that has to be satisfied in accepting or pushing through a project or contract.

- Fixed costs

  The Company, right from the onset, has kept its Fixed costs at a minimum without sacrificing the quality of its services. Especially since the smart card payments and applications industry has not picked-up as expected, it became very important for the Company to maintain a lean and efficient organization for it to be flexible in adapting to changes in market conditions.

- Debt-to-equity ratio

  The Debt-to-equity ratio measures the Company's leverage position, indicating its financial soundness. NextStage ensures that it has a healthy Debt-to-equity position and has, in the past, converted Shareholder advances whenever it is necessary to maintain this.

- Per share ratios (Earnings and Book value)

  Being a public company, NextStage also places much importance on the per share ratios since these measures directly affect shareholder perception. The Company ensures that Earnings per share improve over time and that shareholder value is maximized.

(a) <u>Results of Operations</u>

2006

Consolidated revenue and other operating income increased to P2 million from P28 thousand from the previous year. This years revenue comprises mainly from game development/integration fees provided to Content Providers, Service fees from wireless and mobile internet gaming solutions, and a minimal VAS revenue share from Mobile companies.

Costs and expenses for the year amounted to P129 million, a 222% increase from the P40 million of the previous year. The increase in costs was due mainly to the initial operation of TSSI which started in

October 2006. Depreciation accounts the highest percentage among its expenses at 32%, a P35 million increase from last year. Depreciation of the IMIP and other hardware/software related to the IMIP started in December 2005. Salaries and Other Benefits increased by 69% from P8 million to P26 million from previous year. This is due to hiring of additional manpower in relation to the initial operation of TSSI. Additional expenses incurred in 2006 are Marketing fees, Repairs and Maintenance that is attributable to IMIP maintenance. Other expenses that accounts for the increase in this years total cost and expenses are the provision for the impairment of Mondex card system software, write off of security deposits and write-off of input tax which amounted to P30 million. This comprises of 23% on this years total cost and expenses.

Other Income decrease due to reduction of interest income from cash placements. Cash were used to fund operational cost and to fund major disbursement of the year.

Foreign Exchange gain increase due to reduction of foreign exchange rate from 53.067 in previous year to P49.03 of this year. The foreign exchange gain is attributable mainly to the restatement of TSSI's USDo denominated long term notes payable.

Although the revenue increased by P2 million, cost and expenses increased by 84%, other income and foreign exchange gain increased by 32% resulted in a 396% higher loss from operations at P95 million, compared to last year's P18 million.

Loss before income tax is more bigger due to this years higher cost and expenses - a 310% increase at P125 million versus last period's P30 million, brought about by 175% increase in finance costs

Finally, Income tax expense from income tax of P32 million contributed to the expired NOLCO as of 2005. The increase in cost and expenses shows the inability to generate taxable income and net loss for the year posting a 759% increase at P159 million, compared to the previous year's P18 million.

Substantial profits that will put the Company's results in the positive income are expected to be generated upon TSSI's full operation expected in 2007.

Loss per share increased from last year's P0.18 to this year's P0.93 per share.

2005

Consolidated revenue and other operating income decreased by 78% to P2 million from P8.9 million the previous year. There were practically no card sales and very minimal income from software development which caused the substantial drop in revenue. This temporary lack of revenue from operations is part of the process the Company is undergoing as a result of the investment shift it started in 2000.

Costs and expenses for the year amounted to P39.7 million, a 25% decrease from the P52.8 million of the previous year. The decrease in costs was due mainly to the slowing down of operations of the subsidiaries. TSSI, a newly acquired subsidiary consolidated in September, accounts for 57% of the Company's total costs and expenses. Provision for Mondex's and the parent company's doubtful accounts and amortization of Mondex software make up 30% of the Company's costs.

Although the revenue declined by almost 100%, this year's 25% reduction in costs and expenses resulted in a 14% lower loss from operations at P18.2 million, compared to last year's P43.8 million.

Loss before income tax posted an even bigger improvement – a 33% decrease at P29.7 million versus last period's P44.6 million, brought about by a very substantial increase in foreign exchange gain, eliminating the negative effect of a 1,133% increase in finance costs. The foreign exchange gain is attributable mainly to the restatement of TSSI's USD long term notes payable.

Finally, the benefit from income tax of P11.8 million contributed to the improvement of the Company's bottomline figure, with net loss for the year posting a 60% reduction at P17.9 million, compared to the previous year's P44.8 million.

Substantial profits that will put the Company's results in the black are expected to be generated upon TSSI's full commercial launch.

Loss per share improved from last year's P0.76 to this year's P0.18 per share.

2004

Consolidated revenue increased by 16% to P9.0 million from P7.7 million the previous year. Although Card sales and Interest and other income substantially decreased, Revenue from software development more than doubled. This year's Revenue from software development represents a 100% recognition from the University Application version upgrade for Mastercard International. Card sales decreased due to lower orders from a client, Netopia Internet Café while Interest and other income decreased due to lower Foreign exchange gain.

Costs and expenses for the year amounted to P52.8 million, a 10% increase from the P58.7 million of the previous year. Although regular OPEX items basically all decreased, substantial doubtful account provisions as well as write-off of input VAT pulled-up the Costs and expenses for the year.

Although retrenchment pay were paid to retrenched employees, Salaries and wages still substantially decreased due to lower headcount. Depreciation and amortization also materially decreased since most Property and equipment have been fully depreciated in 2003. Rent, Dues and subscriptions as well as Light, water and power were also reduced due to the transfer to a smaller office. In 2003, the Company was still paying for higher rent and utilities in the 1st quarter. The lower cards sold resulted to lower Cost of cards sold and supplies consumption. The reasons for the drop in other expense items are as follows:

Expense item	Reason for decrease
Communication and mailing	Lower long- distance calls
Transportation and travel	Fewer foreign travels

Insurance	Lower asset values
Taxes and licenses	Lower tax base
Representation and entertainment	Cost containment policy

Due to the substantial doubtful account provisions, Loss from Operations increased by 54% to P37.8 million from the previous year's P24.5 million. However, this was offset by the lower Other expenses of P6.8 million vs. P27.6 million in 2003. In 2003, the Company fully amortized the license fee of P20.5 million. In addition, higher interest expense of P1.2 million was paid due to higher loan balance.

Resulting Net loss for the year amounted to P40.9 million, 15% lower than the P48.2 million recognized in 2003. Loss per share also decreased to P0.76 from P0.89 the previous year.

(b) Financial Condition

2006

Due to the initial operations of TSSI, cash is decresed by 71% to P24 million from P84 million last year. This decrease is attributable to fund operations and major disbursement of the company. A 100 % decrease on card inventories is due to the provision for inventory obsolesence. Prepayments and other current assets decreased due to write off of Input VAT. Non current assets decreased due to the provision for impairment of Mondex card software system. The underlying cost of these asset is lower than the estimated fair value. Management claimed that these assets will no longer recovered. Deferred income tax asset of 2005 is fully recognized in 2006. The decrease in property and equipment of 20% is due mainly on Depreciation. Depreciation of the IMIP and other hardware/software related to IMIP started on December 31, 2005..

TSSI's Long term notes payable comprises approximately 74% of the Company's P410 million total liabilities. Income tax payable was zero due to operating losses incurred during the year. Accounts payable and other current liabilities went up by 47%, with accrued interests accounts for the bulk of the increase.

The Company's current equity of negative P59 million is 52.9% lower than last year's amount of positive P108 million. The decrease was brought about by the higher losses this year amounted to P159 million.

2005

Except for Accounts receivable, Card inventories, Current borrowings, Income tax payable and Advances from shareholders which decreased in 2005 compared to previous year's balances, all the other balance sheet item figures substantially increased this reporting period. This dramatic change/increase in the Company's consolidated amounts is due to the consolidation of TSSI balances. Cash increased by 6,989% with a P83.5 million balance, compared to last year's amount of P1.178 million. TSSI added P81.4 million cash to the Company's consolidated balance. The highest percentage increase though, came from Property and equipment account – an 11,873% increase from previous year's balance of P1.567 million to current year's P187 million. The Property and equipment account includes mainly, TSSI's hardware and software critical to TSSI's income-generation activities. Receivables were reduced by 78% due to collection of trade receivables and the additional provision for bad debts. Prepayments and Other current assets consist mainly of TSSI's Input VAT, prepaid insurance and refundable deposits, accounting mainly for the over 148% increase over last year's amounts.

TSSI's Long term notes payable comprises approximately 79% of the Company's P417 million total liabilities. Income tax payable was substantially trimmed down by 95% due to the significant reduction in income this year. Accounts payable and other current liabilities went up by 885%, with accrued interests accounting for the bulk of the increase.

The Capital and reserves attributable to equity holders of the company amounting to P102 million is 741% higher than last year's amount of P5.9 million. The increase was brought about by the increase in capitalization to P170 million, with 168 million shares issued and outstanding.

(c) Liquidity

As in the previous year, the Company had limited operations funded by shareholder advances. Upon the entry of TSSI, the Company's liquidity improved further with TSSI bringing in cash along with a potential for higher earnings for the Company.

There are no known trends, events or uncertainties which have material impact on liquidity. There are likewise no known events that may trigger any direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

(d) Future Plans

The planned acquisition of TSSI whose business is aligned with global technology business developments such as Business Process Outsourcing (BPO), Applications Service Providers (ASP) and Managed Service Providers (MSP) using mobile and internet access, was completed in August of 2005. This was a strategic move by the Company to expand its technology business and enter into the high growth mobile and internet platform. The acquisition is expected to add a stable income and cashflow stream to the Company.

As part of its initial phase of operations, TSSI has focused on the mobile gaming industry. Having been contracted by the leading government gaming body, its core mobile gaming focus is on cash-winning mobile games, where the main objective is to provide consumers an easy access avenue for instantly winning cash prizes. At the forefront of this mobile gaming machinery is a portfolio of games brought fourth by TSSI's strong ties with the Content Providers' market. These CP's provide games that have a national and universal acclaim that give them great potential in the mobile gaming market-place. Furthermore, TSSI is continuing its mobile gaming development in order to bring to market the most innovative and engaging games possible.

TSSI's marketing strength is a concerted effort between its own internal expertise and resources and the content providers' marketing muscle as well. Bringing the products into the hands of the consumers is a joint effort among TSSI and its partners. TSSI shall embark on a full-scale marketing and sales campaign hinged on the distribution muscle of two of the leading telecommunications companies and the marketing expertise of its internal machinery and external partners such as the content providers.

TSSI is maximizing its resources in that its content providers are themselves investing heavily to ensure the success of the products in the market place. The first game is anchored on the strength of its distribution base, driven by the POS Terminals. These are stand-alone betting stations that allow consumers to physically play their game in a specific area, similar to the Philippine Lottery model. These POS Terminals require substantial capitalization, testament enough to the aggressive stance of this particular content provider. The next game relies on the strength of its roving agent set-up, likened to an army of foot-soldiers. This is designed to combat the operations of localized gaming facilities. They too have made significant investments to establish a strong distribution force to be able to bring their product into the market place as well. And the 3rd of the mainstream products is bannered by the largest organized sorts gaming body in the country. This game carries with it the Marketing and Advertising might of the said organization, and which automatically pressumes a national market appeal. All this marketing strength is supported by an equally formidable sales and distribution set-up. TSSI shall employ the country's top telecommunications company's distribution depth hinged on its digital commerce backbone and its national distribution and retail might..

These business inroads definitely put TSSI in the forefront of the mobile gaming industry."

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
(a) Audit Fees and Audit-Related Fees

None

Year-end audit fees billed to the Company by external auditors were as follows:

Year	Audit company	Amount
2006	Isla Lipana & Company	P650,000
2005	Isla Lipana & Company	P650,000
2004	Isla Lipana &	P528,000

Company

(b) Tax Fees

Tax fees billed to the Company by tax consultants were as follows:

Year	External Auditor	Nature of services	Amount
2006	Isla Lipana & Co.	n/a	n/a
2005	Isla Lipana & Company	Tax consultancy	P120,000
2004	n/a	n/a	n/a

(c) All Other Fees

There were no other fees billed other than those stated above.

(d) The Audit Committee's approval policies and procedures for the above services:

Upon recommendation and approval of the Audit Committee, the appointment of the external auditors and tax consultants is confirmed in the annual stockholder's meeting. The financial statements, on the other hand, should be approved by the Board of Directors before it is released.

PART II1- CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Company

Name/ Age/ Position	Current Affiliations	Previous Affiliations (for the past five years)	Other Directorship in Listed Companies
Orlando B. Vea, 56, Filipino, Chairman of the Board since September 2000	Chairman- NewNet Holdings Inc., 25by8, Inc., Wireless Works, Inc., Mondex Phils. Inc., Infinit-e Asia Inc., Netopia Computer Technologies, Inc., Digital Paradise, Inc. Bidshot Dotcom, Inc., Customer Relationship Management Specialists, Inc., K2 Interactive, Inc., K2 Interactive Holdings Ltd. Chairman & President- One Vision, Inc.	Co-founder and President/CEO- Smart Communications Inc. Chairman of the Board- Mediaquest Holdings Inc., Smart- NTT Multimedia, Inc. Director- Phil. Long Distance Telephone Co., Metro Pacific Corp., Mabuhay Phils. Satellite Corp., Intercommerce Network Services, Inc., Bonifacio Communications Corp.	iPeople, Inc.

	Director: Pinoymail Corp., Ipeople, Inc. Treasurer & Board of Trustees Member- FriendlyCare Foundation, Inc.		
David T. Fernando, 57, Filipino, President and CEO; Director since September 2000	Managing Director- NextQuest Corporation, CQuadrant Corporation; President/ CEO- Infinit-e Asia Inc.; Director- Mondex Phils. Inc., Internet & Intelligence Integration Corporation	Co-founder, Director and Chief Technology Officer- Smart Communications Inc. President- Network Systems, Inc.	None
Rafael A. Morales, 55, Filipino, Director since 1994: Corporate Secretary from September 2000 up to November 2000	Senior Partner- SyCip Salazar Hernandez and Gatmaitan Law Offices Director- Philam Fund, Inc., Philam Dollar Fund, Inc., Philam Strategic Growth Fund, Inc., Philam Bond Fund Inc.	Co-founder- Smart Communications Inc. Foreign Attorney- Rosenman, Colin, Freund, Lewis & Cohen, New York USA; Anderson, Mori & Rabinowitz, Tokyo, Japan	None
Vicente F. Ruaro, 54, Filipino, Director and Treasurer since September 2000	Director- Mondex Phils. Inc., Infinit-e Asia Inc. President- Anjo Mercantile Corporation, Multi Exponent Holdings Corporation Practicing lawyer	Deputy Administrator- RESSI (an attached agency of the Bureau of Internal Revenue) Partner- Ruaro & Recalde Law Office	None
Jose Benjamin S. Fernandez, 44, Filipino, Managing Director and Chief Operating Officer since September 2000	President and CEO- Mondex Philippines Inc.	President and CEO- Smart-NTT Multimedia Inc. Head- Fixed Services Division; Head- Admin & Materials Mgt.; GSM Project Director- Smart Communications Inc. Director for Materials Mgt. & Head- Regional Logistics- Boehringer Ingelheim (Phil.) Inc.	None
Cesar A. Buenaventura, 75, Filipino, Independent Director; Director	Senior Partner- Buenaventura, Filamor, Echauz (BFE) Financial Services Chairman- Atlantic Gulf &	Chief Executive Officer- Shell Group of Companies Member- Monetary Board, Central Bank of the Philippines	IPeople Inc., DMCI Holdings, Inc.,

since September 2000	Pacific Company (AG&P) Vice Chairman- DMCI Holdings Inc., Montecito Properties, Inc. Director- Pilipinas Shell Petroleum Corp., Phil. American Life Insurance Co.; Founding Chairman- Pilipinas Shell Foundation, Inc. President- Benigno S. Aquino Foundation Board of Trustees Member- Asian Institute of Management	Director- Phil. National Bank, Asian Bank, AB Capital & Investment Corp., Ayala Corp., Benguet Corporation and Philippine Airlines, Inc; Member- Board of Regents, University of the Philippines	Semirara Coal Co.
John D. Butterworth, 59, British, Director since September 2000	Director- Davies Hotel and Resort Management	Consultant- Tiger Consulting Group Regional Director- Braid Philippines Regional Director- Ceberus Systec Ptd. Ltd. Managing Director- Burford Ptd Ltd Director, Philippine Operations- Canadian Systems Devt. Corp.	None
Edmundo S. Soriano, 48, Filipino, Independent Director; Director since August 2002	Director- Lightspeed Holdings, Inc., Paysetter Holdings Ltd., Perfect Taste, Inc., Agri Link Foods Corp.; Shareholder- Sagent Network Phils., Chikka Holdings Ltd.	VP & Business Head, Multinationals, Investment Banking- J.P. Morgan, Chase & Co., HK; VP & Wholesale Banking Manager, The Chase Manhattan Bank, Phils.; AVP, Marketing Group, First Chicago Leasing & Equipment Leasing Corp.	None
Angelo dM Mendoza, 38, Filipino, Director since October 2004	Managing Director - FingerApps, Inc., Brandscape Inc. Director - Touchpoint Interactive, Inc	Director & Business Development Head - NXT Quest Corporation, Icon Quest Corporation, I-Qube Corporation, C-Quadrant Corporation, NXTTech Corporation General Manager, CareerAsia.com Corporation	None

Aside from the executive officers of the Company, none of its present employees is expected to make significant contribution to its business. Moreover, the business of the Company is not highly dependent on the services of certain key personnel.

None of the above-named directors and executive officers is related to each other by affinity and consanguinity.

Messrs. Cesar A. Buenaventura and Edmundo S. Soriano are both duly qualified as independent directors and suffer from no disqualification under Section 11 (5) of the Code of Corporate Governance. Both are not directors in other related/affiliated companies of NextStage, Inc.

Buenaventura Echauz and Partners, of which Mr. Cesar A. Buenaventura is a partner, does not render financial advisory to NextStage, Inc.

As of the date of this report, none of the directors and officers was involved in legal proceedings in the last five years.

Item 10. Executive Compensation

(a) Summary Compensation Table

CEO and Top 4 Compensated Executive Officers

<table>
<tr><th>Name</th><th>Year</th><th>Salary</th><th>Bonus</th><th>Outside Services</th><th>Others</th></tr>
<tr><td rowspan="4">Orlando B. Vea
(Chairman of the Board)
David T. Fernando
(President and CEO)
Jose Benjamin S. Fernandez
(Managing Director and COO)
Vicente F. Ruaro
(Treasurer)</td><td>2006
(estimate)</td><td>P17.25 M
(as a group)</td><td></td><td>P10.0 M
(Consultancy Fees paid to the group for services rendered to TSSI)</td><td>None</td></tr>
<tr><td>2005</td><td>P4.6 M (as a group)</td><td>None</td><td>P6.0 M
(Consultancy Fees paid to the group for services rendered to TSSI)</td><td>None</td></tr>
<tr><td>2004</td><td>P1 M
(estimated)</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Directors and Executive Officers

Name	Year	Salary	Other Stockholders Benefits	Others
All other Officers and Directors as a group	2006 (estimate)	P12.4 M (estimated)	P1.07M	None
	2005	P4.1 M	P.5M	None
	2004	P1.8 M	P.1M	None
	2003	None	None	None

(b) Compensation of Directors

There are no existing arrangements under which the directors are compensated, or are to be compensated, directly or indirectly, for any services provided as director. No per diem was paid to any of the directors.

(c) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There are no existing arrangements.

(d) Warrants and Options Outstanding: Repricing

There are no outstanding warrants nor options.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Record and Beneficial Owners (more than 5% of voting securities):
As of December 31, 2006

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Amount and nature of ownership (“R” / “B”)	% of Class

Common	**Perfect Research Technology Corporation** Shareholder *1702-B East Tower Philippine Stock Exchange Centre, Exchange Road, Ortigas, Pasig City*	The right to vote or direct the voting or disposition of the Corporation's shares held by Perfect Research Technology Corporation is lodged in the latter's Board of Directors. The Corporation issued a proxy to the President, Mr. David T. Fernando , to vote the shares thereof in the Corporation	Filipino	113,507,831/ R	67.74
Common	Orlando B. Vea Chairman of the Board *1104 Antel Global Corporate Center, Julia Vargas Ave. Ortigas Center, Pasig City 1605*	N/A	Filipino	20,830,760/ R	12.43
Common	David T. Fernando Director *20/F Wynsum Corporate Plaza, F. Ortigas Ave., Ortigas Center, Pasig City 1605*	N/A	Filipino	20,970,314/ R	12.52
Common	Rafael A. Morales Director All Asia Capital Bldg., 105 Paseo de Roxas, Makati City	N/A	Filipino	10,387,061/ R	19.51

(b) Security Ownership of Management
As of December 31, 2006

Title of Class	Name of beneficial owner	Amount and nature of beneficial ownership	Citizenship	% of Class

Common	Orlando B. Vea	20,830,760/ R	Filipino	12.43
Common	David T. Fernando	20,970,314/ R	Filipino	12.52
Common	Rafael A. Morales	10,387,061/ R	Filipino	6.19
Common	Vicente F. Ruaro	1/ R	Filipino	Nil
Common	Jose Benjamin S. Fernandez	1/ R	Filipino	Nil
Common	Cesar A. Buenaventura	1/ R	Filipino	Nil
Common	John D. Butterworth	1/ R	British	Nil
Common	Edmundo S. Soriano	1/ R	Filipino	Nil
Common	Angelo dM. Mendoza	1/ R	Filipino	Nil
Common	All directors and officers as a group	52,188,141/ R		31.14

(c) Voting Trust

There is no existing voting trust arrangement.

(d) Changes in Control

There are no existing arrangements which may result to change in control.

Item 12. Certain Relationships and Related Transactions

None of the above-named directors and executive officers is related to each other by affinity and consanguinity.

Aside from the executive officers of the Company, none of its present employees is expected to make significant contribution to its business. Moreover, the business of the Company is not highly dependent on the services of certain key personnel.

The Company retains the services of Roxas delos Reyes Rosario Law Offices where Atty. Anna Melissa Lichaytoo, the Corporate Secretary, is a partner, for legal services. In 2006, the Company paid Roxas delos Reyes Laurel & Rosario Law Offices, retainer fees and professional fees for specific projects which the Company believes to be reasonable.

Significant transactions with related parties consist principally of non interest-bearing advances from/to shareholders.

a) Outstanding advances from shareholders, which are intended for working capital purposes, amounted to P31.2 million as of December 31, 2006 (2005 - P31.2 million).

b) Outstanding advances to a shareholder amounted to P50.1 million at December 31, 2006 (2005 - P50.4 million). These are intended to fund certain start-up costs arising from launching of the operations of TSSI in 2006.

c) TSSI entered into a consultancy agreement with a third party where majority of the owners are the shareholders of NextStage, Inc. Consultancy fees charged to operations amounted to P9.2 million in 2006 and P6.7 million in 2005.

PART IV – CORPORATE GOVERNANCE

Item 13 CORPORATE GOVERNANCE REPORT

(a) Evaluation System

Section 7.2 of the Manual of Corporate Governance adopted by the Company authorizes the Compliance Officer to provide for an evaluation system should the same be deemed necessary for purposes of evaluating the Company's compliance with the Manual at year end. Upon consideration of the matter, and in response to inquiries from the Board of Directors, the Compliance Officer has confirmed that evaluation of compliance by the Company, its directors and officers with the provisions of its Manual of Corporate Governance can be undertaken by factual reference. As such, no other evaluation system is deemed necessary at this time.

(b) Good Corporate Governance

In accordance with leading corporate governance practices, the Company adopted in 2002 a Manual of Corporate Governance setting forth the principles to be observed in its operations, which principles mirror that of the leading corporate governance practices. In keeping with the same, the following principles are highlighted:

Board of Directors

- In accordance with the Articles of Incorporation of the Company, a total of 9 directors were elected to the Board.

- The Board of Directors consists of a good balance of executive and non executive directors, all of whom are sufficiently qualified and well-informed of the business of the Company.

- The Board met quarterly for the purpose of hearing and approving the Company's quarterly reports. It also met on other dates whenever urgent matters had to be addressed.

- The Board met a total of five (5) times in 2006.

- Only one (1) of the directors has attended less than half the number of regular meetings for the year.

Committees

- 3 committees were created: the Audit Committee, the Nomination Committee and the Remuneration Committee all of which report their findings to the Board of Directors.

- The Audit Committee was duly constituted and is chaired by an independent director and has another independent director as member, (The Manual requires at least 1 independent director as member).

- The Audit Committee met a total of four (4) times to review the quarterly and annual reports.

- The Nomination Committee (NomCom) was duly constituted with two (2) independent directors as members. The NomCom did not convene in 2006.

- The Remuneration Committee is duly constituted. There has been no reason to convene a meeting of the Remuneration Committee in 2006.

I. The External Auditor

- The Board of Directors has engaged the firm of Isla Lipana & Co. to provide auditing services to the Company.

- Isla Lipana & Co. is expected to be reappointed at the shareholders' meeting. Isla Lipana & Co. took over from SGV & Co. in 2003 upon its appointment at the shareholders' meeting in 26 November 2003. As such, there is no need at this time to replace the external auditor.

- The External Auditor does not provide the services of an internal auditor.

I. Communication Process

- The Company makes available the Manual of Corporate Governance for inspection by any stockholder.

II. Disclosure System and Reports

The Company has timely and adequately disclosed all materials events relative to it.

-

- The Company has timely filed all reports required. Said reports adequately disclose all required information.

III. Shareholder's Benefit

All requests for information received in 2006 from shareholders were entertained and responded to.

IV. Monitoring and Assessment

- The Company has complied with its reportorial obligations. It has filed its certification regarding compliance with the Manual and its certification as to the attendance of directors within the period prescribed therein.

(c) Deviation from Manual of Corporate Governance

With the measures undertaken as above–described, the Company has faithfully complied with the requirements of the Manual of Corporate Governance as adopted and no substantial deviation has been observed in this regard.

(d) Plans to improve the Manual of Corporate Governance

In order to comply with its reportorial obligations, the Board authorized the amendment of the Manual, in its meeting on 10 April 2006, to extend the period within which the Corporate Secretary shall submit to the Securities and Exchange Commission an annual certification as to the attendance of the directors during Board Meetings. There is no proposal to further amend the Manual of Corporate Governance at this time.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Report on SEC Form 17-C
For the last six months of 2006

Date of Report/ Date of Event Reported	Items Reported	Any Financial Statements Filed?
14 July 2006/ 12 July 2006	**- Approval by the shareholders in a meeting held on 12 July 2006 of the following matters:** **1. the minutes of the annual shareholders' meeting held last 1 October 2004;** **2. the Audited Financial Statements of the Corporation as of 31 December 2005;** **3. the ratification of all the acts, resolutions and transactions entered into by the Board of Directors and Management from the last stockholders' meeting and up to the present;** **4. the election of the following for directorship:** **ORLANDO B. VEA** **DAVID T. FERNANDO** **RAFAEL A. MORALES** **VICENTE F. RUARO** **JOSE BENJAMIN S. FERNANDEZ** **CESAR A. BUENAVENTURA** **EDMUNDO S. SORIANO** **ANGELO DM MENDOZA** **JOHN D. BUTTERWORTH**	**None**

	5. **the appointment of Isla Lipana & Co. (formerly known as "Joaquin Cunanan & Co.") as external auditor of the Corporation for the ensuing year.** **- The election of officers and the organization of Board committees in the organizational meeting of the Board held immediately after the shareholders' meeting.** - The Board's approval of the amendment of the Corporation's By-Laws to include the provisions of the Revised Securities Regulation Code regarding independent directors.	

EXHIBIT 1
SUBSIDIARIES OF THE COMPANY

	% ownership
Infinit-e Asia Inc.	100%
Mondex Philippines Inc.	90%
Technology Support Services, Inc.	100%

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Pasig City on April 30, 2007

NEXTSTAGE INC.

By:

/s
DAVID T. FERNANDO
Chairman and President

/s
JOSE BENJAMIN S. FERNANDEZ
Managing Director & COO

/s
VICENTE F. RUARO
Director and Treasurer

/s
RAFAEL A. MORALES
Director

/s
ANNA MELISSA R. LICHAYTOO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _________ day of April, 2007 affiants exhibiting to me their Residence Certificates, as follows:

Name	CTC No.	Date of Issue	Place of Issue
David T. Fernando	02113246	May 12, 2006	Manila
Rafael A. Morales	17669875	Jan. 26, 2007	Makati City
Vicente F. Ruaro	05844226	Jan. 16, 2007	Mandaluyong
Jose Benjamin S. Fernandez	12069806	March 16, 2006	Manila
Anna Melissa R. Lichaytoo	15119889	Jan 12, 2007	Makati City

Doc. No. 193
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Series of 2007.

RITCHIE EVANS L. KALAW
Notary Public until 31 December 2007
19/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 0309690, Makati City, 10 January 2007
IBP No. 698366, Batangas, 3 January 2007
Roll No. 51931, Commission No. 558

Ritchie Evan Kalaw, Roll No. 51931 • Makati City, Philippines •
Notary Public

COVER SHEET

					2	4	9	8	6

S.E.C. Registration Number

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(Group's Full Name)

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	P	A	S	I	G		C	I	T	Y																			

(Business Address: No. Street City/Town/Province)

Janet Austria
Contact Person

(02) 687-0808
Group Telephone Number

1	2		3	1

Month *Day*
Fiscal Year

		A	F	S

FORM TYPE

Annual Meeting
Month *Day*

Secondary License Type, If Applicable

C	R	M

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

NEXTSTAGE, INC. AND SUBSIDIARIES

CERTIFIED FINANCIAL STATEMENTS WITH SUPPLEMENTARY SCHEDULES FOR THE SECURITIES AND EXCHANGE COMMISSION DECEMBER 31, 2006

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FIRST SECTION

nextstage

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **NEXTSTAGE INC.** and Subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006. The consolidated and parent company financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Isla Lipana & Co./PriceWaterhouseCoopers, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation in accordance with the Philippine Financial Reporting Standards upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

/s **DAVID T. FERNANDO**
Chairman and President

/s **VICENTE F. RUARO**
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this ____ day of April, 2007 affiants exhibiting to me their Residence Certificates, as follows:

Name	CTC No.	Date of Issue	Place of Issue
David T. Fernando	02113246	May 12, 2006	Manila
Vicente F. Ruaro	05844226	Jan. 16, 2007	Pasig City

20/F Wynsum Corporate Plaza
F. Ortigas St, Ortigas Center
Pasig City 1605
Tel. No. 687-0808
Fax No. 687-0707

Isla Lipana & Co.

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1226 Makati City, Philippines
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Independent Auditor's Report

To the Board of Directors and Stockholders of
NextStage, Inc.
20th Floor, Wynsum Corporate Plaza, F. Ortigas, Jr. Road,
Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of NextStage, Inc. and its subsidiaries, the "Group", which comprise the balance sheets as of December 31, 2006 and 2005 and the statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Stockholders of
NextStage, Inc.
Page 2

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006 and 2005 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

Our audit was made primarily for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown on Schedules A to I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Makati City
April 30, 2007

RODERICK M. DANAO
(Signing on behalf of Isla Lipana & Co.)
CPA Cert. No. 88453
P.T.R. No. 0529305, January 19, 2006, Makati City
SEC A.N. (Individual) as general auditors 0264-A
SEC A.N. (Firm) as general auditors 0009-FR-1
TIN 152-015-078
BIR A.N. 08-000745-42-2006, issued on 02/14/2006; effective until 02/13/2009
BOA/PRC Reg. No. 0142, issued on October 25, 2004

NEXTSTAGE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(All amounts in Philippine Pesos)

	Notes	2006	2005
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	24,311,300	83,532,800
Accounts receivable, net	6	22,966,418	24,857,883
Advances to shareholders	12	30,044,500	30,044,500
Card inventories, net		-	45,806
Prepayments and other current assets	7	4,396,735	8,321,928
Non-current assets held for sale	8	-	23,982,890
Total current assets		81,718,953	170,785,807
NON-CURRENT ASSETS			
Deferred income tax asset	16	-	38,386,020
Property and equipment, net	9	149,276,644	187,674,914
Goodwill	13	128,165,332	128,165,332
Other assets	8	539,012	883,932
Total non-current assets		277,980,988	355,110,198
Total assets		359,699,941	525,896,005
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and other current liabilities	10	75,110,101	50,942,892
Income tax payable		-	8,146
Total current liabilities		75,110,101	50,951,038
NON-CURRENT LIABILITIES			
Advances from shareholders	12	31,187,108	31,187,108
Deferred income tax liability	16	-	6,244,628
Long term borrowings	11	303,986,000	329,015,400
Total non-current liabilities		335,173,108	366,447,136
Total liabilities		410,283,209	417,398,174
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		167,559,179	167,559,179
Deposit for future share subscription		35,000,000	35,000,000
Deficit	1	(256,582,768)	(100,367,068)
		(54,023,589)	102,192,111
Minority interest		3,440,321	6,305,720
Total equity		(50,583,268)	108,497,831
Total liabilities and equity		359,699,941	525,896,005

The notes on pages 1 to 29 are an integral part of these financial statements.

NEXTSTAGE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(All amounts in Philippine Pesos)

	Notes	2006	2005	2004
REVENUE				
Software development		734,675	-	8,514,013
Card sales		-	28,808	410,814
Service fees		900,000	-	-
Transaction fees and others		145,674	-	22,517
		1,780,349	28,808	8,947,344
COSTS AND EXPENSES	14	(129,074,974)	(39,752,514)	(52,779,831)
OTHER INCOME	17	2,512,147	3,359,179	17,492
FOREIGN EXCHANGE GAIN, NET	18	29,645,657	18,225,680	24,743
LOSS FROM OPERATIONS		95,136,821	18,138,847	43,790,252
FINANCE COSTS	11	31,802,886	11,571,434	839,576
LOSS BEFORE INCOME TAX		126,939,707	29,710,281	44,629,828
INCOME TAX EXPENSE (CREDIT)	16	32,141,392	(11,796,645)	178,169
LOSS FOR THE YEAR		159,081,099	17,913,636	44,807,997
ATTRIBUTABLE TO:				
Equity holders of the Company		156,215,700	17,158,382	40,976,252
Minority interests		2,865,399	755,254	3,831,745
		159,081,099	17,913,636	44,807,997
Loss per share attributable to the equity holders of the Company during the year (expressed in Peso per share)	15	0.93	0.18	0.76

The notes on pages 1 to 29 are an integral part of these financial statements.

NEXTSTAGE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(All amounts in Philippine Pesos except number of shares)

		Share capital				Attributable to equity shareholders of the Company				
		Authorized		Subscribed						
	Notes	No. of shares	Amount	No. of shares	Amount	Share premium	Deposit for future share subscription	Retained Earnings	Minority interest	Total equity (capital deficiency)
Balances at January 1, 2004		100,000,000	P100,000,000	54,051,348	54,051,348	32,049,701	-	(74,282,135)	10,892,719	22,711,633
Application of resulting surplus out of the capital reduction against deficit	1	-	-	-	-	(32,049,701)	-	32,049,701		-
Conversion of advances from shareholders to deposit for future subscription	1	-	-	-	-	-	35,000,000	-		35,000,000
Loss for the year		-	-	-	-	-	-	(40,976,252)	(3,831,745)	(44,807,997)
Balances at December 31, 2004		100,000,000	100,000,000	54,051,348	54,051,348	-	35,000,000	(83,208,686)	7,060,974	12,903,636
Increase in authorized and subscribed share capital	1	70,000,000	70,000,000	-	-	-	-	-	-	-
Issuance of shares in exchange of 100% of the shares of a subsidiary	1,13	-	-	113,507,831	113,507,831	-	-	-	-	113,507,831
Loss for the year		-	-	-	-	-	-	(17,158,382)	(755,254)	(17,913,636)
Balances at December 31, 2005		170,000,000	170,000,000	167,559,179	167,559,179	-	35,000,000	(100,367,068)	6,305,720	108,497,831
Loss for the year		-	-	-	-	-	-	(156,215,700)	(2,865,399)	(159,081,099)
Balances at December 31, 2006		170,000,000	170,000,000	167,559,179	167,559,179	-	35,000,000	(256,582,768)	3,440,321	(50,583,268)

The notes on pages 1 to 29 are an integral part of these financial statements.

NEXTSTAGE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2006
(All amounts in Philippine Pesos)

	Notes	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		(126,939,707)	(29,710,281)	(44,629,828)
Adjustments for:				
Depreciation and amortization	9	41,297,204	6,123,936	3,912,070
Provision for impairment of software	14	23,982,890	-	-
Write-off of input VAT	14	5,216,519	-	4,833,935
Loss on impairment of accounts receivables	14	3,734,408	5,929,665	27,083,242
Provision for inventory obsolescence	14	45,806	277,005	-
Unrealized foreign exchange gain		(29,645,657)	(18,376,931)	(24,743)
Amortization of software costs	14	-	5,995,742	5,995,742
Interest expense	11	31,802,886	11,571,434	778,779
Interest income	17	(2,512,147)	(1,434,108)	(17,492)
Operating loss before working capital changes		(53,017,798)	(19,623,538)	(2,068,295)
Decrease (increase) in:				
Accounts receivable		(1,923,682)	7,048,727	(6,934,829)
Advances to related parties		-	(265,364)	537,314
Card inventories		-	(29,809)	(180,382)
Prepayments and other current assets		(1,291,326)	(940,808)	-
(Decrease) increase in accounts payable and other current liabilities		(1,841,112)	(5,893,667)	3,707,818
Cash used in operations		(58,073,918)	(19,704,459)	(4,938,374)
Interest received		2,512,147	1,434,108	17,492
Interest paid		-	-	(778,779)
Income tax paid		(8,146)	(260,731)	-
Net cash used in operating activities		(55,569,917)	(18,531,082)	(5,699,661)
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in other assets		344,920	-	(5,547,729)
Payments of obligation under capital lease		-	-	(690,533)
Acquisition of equipment	9	(2,898,934)	(2,117,138)	
Proceeds from sale of equipment		-	-	445,200
Cash from acquisition of a subsidiary	13	-	108,219,320	-
Net cash provided by (used in) investing activities		(2,554,014)	106,102,182	(5,793,062)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of borrowings		-	(2,805,777)	(3,000,000)
Payments to shareholders		-	(2,371,457)	13,063,702
Net cash used in financing activities		-	(5,177,234)	10,063,702
Exchange losses on cash and cash equivalents		(1,097,569)	(39,464)	-
Net increase (decrease) in cash and cash equivalents		(59,221,500)	82,354,402	(1,429,021)
Cash and cash equivalents at beginning of the year		83,532,800	1,178,398	2,607,419
Cash and cash equivalents at end of the year		24,311,300	83,532,800	1,178,398

The notes on pages 1 to 29 are an integral part of these financial statements.

NEXTSTAGE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2006 AND 2005
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2006
(In the Notes, all amounts are shown in Philippine Pesos unless otherwise stated)

Note 1 - General information

Nextstage, Inc. (the "Company") was incorporated and registered with the Securities and Exchange Commission (SEC) in 1964 as Pacific Cement Company, Incorporated to engage in the manufacture and trading of cement and related products. In June 2000, the SEC approved the change in the primary purpose of the Company to that of a holding company and changed its corporate name to PACEMCO HOLDINGS, INC. (PACEMCO). Simultaneous therewith, PACEMCO spun off its cement manufacturing and mining facility and assets to Pacific Cement Philippines, Inc. (PACEMPHIL), in exchange for 100% of the shares of stock of PACEMPHIL. This investment was subsequently sold in November 2000.

In December 2000, PACEMCO acquired 100% of the share capital of NextStage, Inc. (NextStage), a company established to take advantage of the opportunities in the rapidly growing technology sector and the emerging electronic economy. Subsequently, the shareholders of PACEMCO, during a meeting held in the first quarter of 2001, approved the proposed merger of PACEMCO with NextStage, Inc. On June 11, 2001, the SEC approved the merger of PACEMCO and its subsidiary NextStage, Inc. with PACEMCO as the surviving corporation. Subsequently, SEC also approved the change in name from PACEMCO to NextStage, Inc. ("NextStage" or the "Company").

The Company's shares are listed in the Philippine Stock Exchange. The Company has 304 stockholders owning 100 and more shares each as at December 31, 2006. The Company's major shareholders consist mainly of local companies.

The Company's shares are listed in the Philippine Stock Exchange.

As at December 31, 2006, Perfect Research Technology Corporation (PRTC), domiciled and incorporated in the Philippines and is the parent company and the ultimate controlling party, owns 67.74% equity interest in the Company.

The Company owns the following subsidiaries:

	Percentage of ownership	Country of incorporation
Infinit-E Asia, Inc. (Infinit-E)	100	Philippines
Mondex Philippines, Inc. (MXP)	90	Philippines
Technology Support Services, Inc. (TSSI)	100	Philippines
Mondex Protector Philippines, inc. (MPPI)	100	Philippines

Infinit-E is engaged in information technology and electronic commerce related systems and services.

MXP and MPPI are engaged in designing, programming, installing, providing, integrating, operating, maintaining and managing electronic cash payment, and smart and prepaid/debit/credit card systems without directly engaging in the credit card business. However, MPPI did not have any transactions as of December 31, 2005. Its net assets as of December 31, 2006 amount to P113,738 which represent a trust account maintained with a local bank. Investment in MPPI has not been consolidated in the financial statement due to immateriality.

TSSI is engaged in the business of providing technology support services and solutions for wireless and Internet gaming providers. It has developed a proprietary and customized Internet and Mobile Intermediation Platform (IMIP) as a means to provide support services and solutions.

The Group has its registered office address, which is also its principal place of business at 20th Floor, Wynsum Corporate Plaza, F. Ortigas, Jr. Road, Ortigas Center, Pasig City. The Group has 21 employees as of December 31, 2005 (2005 - 25).

The consolidated financial statements have been approved and authorized for issuance by the Board of Directors on April 30, 2007.

Quasi-Reorganization and increase in authorized share capital

On May 28, 2004, the Board of Directors approved a resolution for the application of P32,049,701 share premium against the Company's deficit of P74,282,135 as of December 31, 2003. The application was approved by the SEC in June 2004.

In 2004, the major shareholders advanced P13.1 million to fund Company's cash flow requirements. The shareholders opted to transfer P35.0 million out of their P68.0 million advances into deposit for future share subscriptions.

In 2005, the Company acquired Technology Support Services Inc. ("TSSI") by issuing 113.5 million shares to Perfect Research Technology Corporation (PRTC), previous shareholder of TSSI, in exchange for 100% of the shares of stock of TSSI. As a result of this transaction, the equity interest of the original shareholders of NextStage, Inc. has been diluted from 100% to 32.25%. PRTC owns 67.74% equity interest of the Company as of December 31, 2006 and 2005.

In connection with this acquisition, the SEC approved NextStage, Inc.'s increase in its authorized capital to P170 million divided into 170 million shares (at P1 par) from P100 million divided into 100 million shares (at P1 par) on August 24, 2005.

The business combination has been accounted for using the purchase method under PFRS 3. Details of assets and liabilities acquired and the allocation of purchase price are discussed in Note 13**.**

Status of operations

The Group had accumulated deficit of P256,582,768 as of December 31, 2006 (2005 - P100,367,068). The major shareholders of the Company have indicated their commitment to continue providing financial support to the Group to the extent necessary to enable it to continue as a going concern.

In 2005, the Company acquired 100% of the shares of stock of TSSI. TSSI is a company established to engage in the business of providing technology support services and solutions for wireless and Internet gaming providers. TSSI has developed applications, hosted in the Mobile Intermediation Platform (IMIP) to provide such support services.

Acquisition of TSSI is a strategic move on the part of the Group to expand its technology services portfolio which currently includes smart card payments and health care industry solutions. TSSI's business is aligned with global technology business developments such as Business Process Outsourcing (BPO), Applications Service Providers (ASP) and Managed Service Providers (MSP). In addition, TSSI's use of mobile and internet access in its services allows the Group to tap into the high growth mobile and internet market. Said link to mobile and internet business allows the accumulation of additional knowledge base which could prove valuable in the future.

This investment in TSSI will provide another source of revenue and income for the Group in addition to its revenue from payments and applications development and services. TSSI's revenue model is recurring in nature therefore giving the Group a stable income stream in the long term. It is also expected to realize steady cash flows from its operations starting the near term. As of December 31, 2006, there are at least 5 mobile games which will be launched by respective content providers in the second quarter of 2007. The Group's platform supports data transmission for these games. The Group expects a favorable operating performance starting year 2008.

TSSI started commercial operations in March 2007.

Note 2 - Summary of significant accounting policies

The principal accounting policies in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Standing Interpretation Committee (SIC) / International Financial Reporting Interpretations Committee (IFRIC) Interpretations and Philippine Interpretations Committee (PIC) Interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective beginning January 1, 2006 and onwards

The Group adopted the following applicable accounting standards and interpretations approved by the FRSC which are effective for annual periods beginning on or after January 1, 2006:

- PAS 39, Financial Instruments: Recognition and Measurement (Amendment) - The Fair Value Option
- Interpretation IFRIC 4, Determining whether an Arrangement contains a Lease. IFRIC 4 requires the determination of whether an arrangement is or contains a leased to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

The adoption of the above standards and interpretations did not result in substantial changes to the Group's accounting policies. However, additional disclosures required are included in the financial statements, where applicable.

Certain other new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after January 1, 2006 or later periods. These are not relevant to the Group, except for PFRS 7, which the Group has not early adopted.

- PAS 21 Amendment, Net Investment in Foreign Operations (effective from January 1, 2006)
- PAS 19, Employee Benefits (Amendment) - Actuarial Gains and Losses, Group Plans and Disclosures
- PAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from

January 1, 2006)

- PAS 39 and PFRS 4 (Amendment), Financial Guarantee Contracts (effective from January 1, 2006)
- PFRS 1 (Amendment), First-time Adoption of Philippine Financial Reporting Standards and PFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from January 1, 2006)
- PFRS 6, Exploration for and Evaluation of Mineral Resources (effective from January 1, 2006)
- Interpretation IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from January 1, 2006)
- Interpretation IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from December 1, 2005)
- Interpretation IFRIC 7, Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006)
- Interpretation IFRIC 8, Scope of PFRS 2
- Interpretation IFRIC 9, Reassessment of Embedded Derivatives (effective from June 1, 2006)
- Interpretation IFRIC 10, Interim Financial Reporting and Impairment (effective from November 1, 2006)
- Interpretation IFRIC 11, Group and Treasury Share Transactions (effective from March 1, 2007)
- Interpretation IFRIC 12, Service Concession Arrangements (effective from January 1, 2008)
- PFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to PAS 1, Presentation of Financial Statements - Capital Disclosures (effective from January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in PAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of PAS 1. The Group will apply PFRS 7 and the amendment to PAS 1 from annual periods beginning January 1, 2007.
- PFRS 8 - Operating Segments (effective from January 1, 2009)
- Amendment to PAS 101 (on the effective date)

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions with minority interest

The Group applies a policy of treating transactions with Minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the statement of income. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.4 Financial assets

The Group classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date, except for financial assets at fair value through profit and loss.

(a) Classification

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets designated as at fair value through profit and loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the key management personnel. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. The Group did not hold any investments in this category during the year.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date that are classified as non-current assets. Loans and receivables are included under receivables in the balance sheets.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category during the year.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

(b) Initial recognition and derecognition

Regular purchases and sales of investments are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are recognized as expenses in the statement of income. Financial assets are derecognized when the rights to receive cash flows from investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(c) Subsequent measurement

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statements of income in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of income as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity (Note 2.15). Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statements of income as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the Group's right to receive payment is established.

(d) Determination of fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

(e) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, 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 profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. Impairment testing of trade receivables is described in Note 2.5.

(ii) For those carried at amortized cost, individually significant financial assets are tested for impairment if there are indicators of impairment. Impairment loss is recognized in the statement of income and the carrying amount of the asset is reduced through the use of allowance.

2.5 Receivables

Accounts receivables are carried at original invoice amounts less provision for impairment, if any.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income within costs and expenses. When a receivable is uncollectible, it is written-off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited against costs and expenses in the statement of income.

2.6 Card inventories

Card inventories on hand are valued at the lower of cost and net realizable value, cost being determined using first-in, first-out method. Net realizable value of card inventories is the selling price in the ordinary course of business, less the costs of distribution.

2.7 Non-current assets held for sale

Non-current assets available for sale are valued at the lower of carrying amount and fair value less cost to sell.

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. The appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

2.8 Property and equipment

Property and equipment is stated at historical cost, less related accumulated depreciation and amortization and impairment in value, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated on the straight-line method to allocate the cost of each asset less its residual value over its estimated useful lives as follows:

Furniture and fixtures	5 years
Office and other equipment	3 years
One Box Solution (OBS) equipment	5 years
Merchant terminals	3 years
Printing equipment	3 years
Computers and other equipment	3 years
Transportation equipment	5 years
Platform	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

2.9 Intangible assets

a) Goodwill

Goodwill represents the excess of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b) Computer software

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include staff costs of software development team and an appropriate portion of the relevant overheads.

Planning costs attributable to software and platform are charged to expense as incurred.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Value in use requires entities to make estimates of future cash flows to be derived from the particular asset and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. Non-financial assets other than goodwill that suffered impairment are reviewed for reversal of the impairment at each reporting date.

2.11 Trade and other payables

Trade and other payables are recognized in the period in which the related money, goods or services are received or when legally enforceable claim against the Group is established. These are measured at amortized cost, normally equal to its nominal amount.

2.12 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed in the period in which they are incurred.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or

MCIT), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Group reassesses at each balance sheet date the need to recognize a previously unrecognized deferred income tax asset.

2.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

2.15 Share capital

Ordinary or common shares which do not have redemption features are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in the equity as a deduction from the proceeds, net of tax.

Where any member of the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holder until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency'). The financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

2.17 Revenue and cost recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is possible that future economic benefits will flow into the entity and specific criteria have been met for each of the Group's activities as described below.

a) Service fees

Revenue from wireless, mobile internet gaming solutions in the form of service fee is recognized when actual service is rendered.

b) Revenue from Contracts

Revenue from contracts is based on percentage of completion. The stage of completion is measured by reference to the relationship of contract costs incurred for work performed to date against the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

c) Revenue from card sales

Revenue from card sales is recognized upon delivery of customized cards to the merchants.

d) Other operating income

Other operating income is recognized when earned.

e) Interest income

Interest income on deposits with bank is recognized when it is determined that such income will accrue to the Group and is subject to final withholding tax and presented net of tax.

Cost and expenses

Costs and expenses are recognized when incurred.

2.18 Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under non-cancelable operating leases are recognized in the statement of income on a straight-line basis over the period of the lease.

When the Group enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Group assesses whether the arrangement is, or contains, a lease. The Group does not have such arrangements.

2.19 Earnings per Share

Earnings (loss) per share is computed by dividing net income (loss) for the year attributable to the shareholders by the weighted average number of shares outstanding during the year.

2.20 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Below are the significant business segments of the Group:

a) Smart Card

This segment represents business activities relating to the operations of Smart Card which include among others on-line payment solutions. Revenues from this business segment mainly represent transaction fees and sale of cards.

b) Mobile and internet gaming solutions

This business segment represents the support services and wireless solutions provided to internet game service providers.

c) Software

Software business segment represents the software development business provided to healthcare service providers.

2.21 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party, or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among the reporting enterprise and its key management personnel, directors and stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2.22 Contingencies

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

2.23 Subsequent events

Subsequent events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes to the financial statements when material.

2.24 Reclassifications

Certain amounts in the 2005 financial statements and supporting note disclosures have been reclassified to conform to the current period presentation. Such reclassification did not affect the statement of cash flows nor did not it impact previously reported net income or retained earnings.

Note 3 - Financial risk management

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

a) Foreign currency risk

As certain loans are denominated in US Dollars, the Group's financial position and financial performance can be affected by movements in the Philippine peso exchange rates. The Group does not have policies in place to hedge foreign currency exposures.

b) Credit risk

The Group has no significant concentrations of credit risk.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The major shareholders of the Group have indicated their commitment to continue providing financial support to the Group.

d) Fair value estimation

These are no derivative or hedging transactions that require fair value measurement at December 31, 2006 and 2005.

Note 4 - Critical accounting estimates, assumptions and judgments

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group believes the following represent a summary of these significant estimates, assumptions and judgments and their related impact and associated risks in the financial statements:

a) Provision for impairment of receivables

Provision for impairment of receivables is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of provision is specially identified to each debtor. Management uses judgment based on the best available facts and circumstances in evaluating specific accounts of debtors who are unable to meet their financial obligations. The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made.

b) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Group recognizes liabilities based on careful evaluation and estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Group's income tax and provisions in the period in which such determination is made. Further, recognition of deferred income taxes depends on the managements' assessment of the probability of available future taxable income against which the temporary differences can be applied.

c) Estimated useful lives

The useful life of each of the Group's item of property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar business, term of the underlying contracts, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by the changes in the factors mentioned above. An increase in the estimated useful life of any item of property, plant and equipment would decrease the recorded costs and expenses.

The carrying amounts of the Group's property and equipment as of December 31, 2006 and 2005 is detailed in Note 9.

d) Impairment of non-financial assets

Mondex Card System

The Group follows the guidance of PAS 36 to determine when a non-current asset held for sale is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration, extent to which the fair value of an asset is less than its cost, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Management has recognized provision for impairment of software amounting to P27,982,890 for the year ended December 31, 2006 (Note 8).

Property and equipment

An impairment review is performed when certain impairment indicators are present. With the delayed launch of various on-line games by content providers, the platform has not been used since construction was completed in 2005. Management has prepared long-term cash flow projection and concluded that the carrying value of the assets is still fully recoverable as of December 31, 2006.

Determining the value in use of property and equipment and other assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Group to conclude that property and equipment and other assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

The carrying amounts of the Group's property and equipment as of December 31, 2006 and 2005 is discussed in Note 9.

e) Contingencies

The Company is currently involved in various legal proceedings. Estimates of the probable costs for the resolution of these claims, if any, has been developed in consultation with internal and external counsels handling the Company's defense in these matters and is based upon the probability potential results. The Company's management currently believes that these proceedings will not have a material effect on the financial statements. It is possible, however, that future results of operations could be materially affected depending on the actual outcome of the proceedings.

Note 5 - Cash and cash equivalents

Cash and Cash equivalents at December 31 consists of:

	2006	2005
Cash on hand and in banks	14,501,979	22,776,460
Short term investments	9,809,321	60,756,340
	24,311,300	83,532,800

Short term investments represent money-market placements of TSSI with various local commercial banks with interest rates ranging from 4.50% to 4.63% (2005 - 3.20% to 7.75%) per annum. These short term deposits have an average maturity of 30 days.

Note 6 - Accounts receivable

Accounts receivables at December 31 consist of:

	2006	2005
Advances to suppliers	23,764,847	24,134,396
Other receivables	20,125,000	20,125,000
Claims receivable	2,701,529	2,701,529
Advances to officers and employees	5,685,472	3,223,804
Others	890,354	1,139,530
	53,167,202	51,324,259
Less: allowance for impairment of receivables	(30,200,784)	(26,466,376)
	22,966,418	24,857,883

Advances to suppliers mainly represent advance payments to Willtech, Inc. for the design, development, supply, support and maintenance of 15,000 smart card transaction terminals (or point of sale terminals) and printers following the specifications provided by MXP. A provision for impairment amounting to P23,764,847 has been recorded against the account in 2004.

Other receivables pertain to advances to a local information and communications company intended to fund certain start-up costs arising from the launching of the operations of the Company and working capital thereafter.

Claims receivable represent claims from a supplier for defective card inventories delivered to MXP. In April 2003, MXP and the supplier agreed for the settlement of such claims by replacing a portion of the defective cards and cancellation of the unpaid portion of the contract. However, the replacement cards have not been received as of December 31, 2005. A full provision for impairment amounting to P2,701,529 has been recorded against the account in 2005.

The Group has recognized a loss of P3,734,408 for the impairment of its receivables for the year ended December 31, 2006.

The carrying amount of the receivables approximates their fair values.

Note 7 - Prepayments and other current assets

Prepayments and other current assets at December 31 consist of:

	2006	2005
Input value added tax (VAT)	4,910,500	5,834,785
Prepaid insurance	677,829	572,953
Prepaid rent	363,015	355,515
Deposits	297,881	1,070,436
Others	702,128	488,239
	6,951,353	8,321,928
Less: allowance for impairment of input VAT	(2,554,618)	-
	4,396,735	8,321,928

The Group recognized provision for impairment of input VAT of P2,554,618 and loss of P2,661,901 pertaining to write-off of unrecoverable input VAT for the year ended December 31, 2006 (2005 - nil).

Note 8 - Non-current assets held for sale; Other assets

Other assets at December 31 consist of:

	2006	2005
Software cost, net		
Cost	-	47,965,858
Accumulated amortization at beginning of the year	-	(17,987,226)
Amortization for the year	-	(5,995,742)
Accumulated amortization at the end of the year		(23,982,968)
Reclassification from (to) non-current assets held for sale	23,982,890	(23,982,890)
Provision for impairment	(23,982,890)	-
Software costs, net book value	-	-
Investment in MPPI	113,738	113,738
Others	425,274	770,194
	539,012	883,932

Software represents capitalized Mondex Card System software development costs. The software has been developed to support the operating and platform requirements of the Smart Card System and for secured access systems timekeeping and any other applications requiring the use of encrypted and secured cards.

Amortization amounting to P5,995,742, for the years ended December 31, 2005 and 2004 was charged to costs and expenses in the statement of income.

In December 2005, MXP received a letter of intent from a third party for the sale of the Mondex Card System Software under which the buyer has offered to purchase the system for a consideration of at least P37.7 million subject to completion of certain due diligence procedures. Accordingly, the remaining unamortized cost of the software amounting to P23.98 million was reclassified to non-current assets held for sale in the balance sheets as of December 31, 2005. The underlying cost is lower than the estimated fair value at December 31, 2005.

In 2006, however, due to change in the market, the deal for the sale of the software was not consummated. Consequently, the Group recognized a provision for impairment of software amounting to P23,982,890 for the year ended December 31, 2006.

Other assets as at December 31, 2006 and 2005 also include net investment amount in MPPI amounting to P113,738 which was not consolidated in the financial statements due to immateriality.

Note 9 - Property and equipment

Property and equipment at December 31 consist of:

	OBS equipment	Merchant terminals	Furniture and fixtures	Platform	Printing equipment	Transportation equipment	Computers and other equipment	Total
At January 1, 2005								
Cost	10,565,041	5,739,229	5,796,888	-	1,646,352	-	6,097,728	29,845,238
Accumulated depreciation and amortization	(9,508,538)	(5,739,229)	(5,378,693)	-	(1,646,352)	-	(6,004,981)	(28,277,793)
Net book value	1,056,503		418,195	-		-	92,747	1,567,445
				-				
Year ended December 31, 2005								
Opening net book value	1,056,503	-	418,195	-	-	-	92,747	1,567,445
Additions from acquisition of TSSI								
Cost	-	-	6,713,310	177,720,865	-	9,902,727	-	194,336,902
Accumulated depreciation	-	-	(1,009,498)	-	-	(1,095,999)	-	(2,105,497)
Depreciation and amortization	(1,056,503)	-	(1,367,496)	(3,043,144)	-	(564,046)	(92,747)	(6,123,936)
Closing net book value	-	-	4,754,511	174,677,721	-	8,242,682		187,674,914
At December 31, 2005								
Cost	10,565,041	5,739,229	12,510,198	177,720,865	1,646,352	9,902,727	6,097,728	224,184,140
Accumulated depreciation and amortization	(10,565,041)	(5,739,229)	(7,755,687)	(3,043,144)	(1,646,352)	(1,660,045)	(6,097,728)	(36,507,226)
Net book value	-	-	4,754,511	174,677,721	-	8,242,682	-	187,674,914
Year ended December 31, 2006								
Opening net book value	-	-	4,754,511	174,677,721	-	8,242,682	-	187,674,914
Additions	-	-	485,310	1,514,594	-	899,030	-	2,898,934
Depreciation and amortization	-	-	(3,110,728)	(36,129,939)	-	(2,056,537)	-	(41,297,204)
Net book value	-	-	2,129,093	140,062,376	-	7,085,175	-	149,276,644
At December 31, 2006	-	-			-			
Cost	10,565,041	5,739,229	12,995,508	179,235,459	1,646,352	10,801,757	6,097,728	227,081,074
Accumulated depreciation and amortization	(10,565,041)	(5,739,229)	(10,866,415)	(39,173,083)	(1,646,352)	(3,716,582)	(6,097,728)	(77,804,430)
Net book value	-	-	2,129,093	140,062,376	-	7,085,175	-	149,276,644

Management has prepared a 5-year cash flow projection arising from the use of the Platform. Below are the key assumptions used:

Key assumptions (in millions)	2007	2008	2009	2010	2011
Estimated revenues	32.00	73.38	140.80	254.65	277.08
Discount rate used for discounting	5.60%	5.69%	5.78%	5.91%	5.99%
Estimated present value of net cash inflow	50.72	38.49	72.95	204.11	338.38
Number of major games	4	4	4	4	4

Discount rate used was based on MART 1.

Transactions and revenue will arise mainly from platform services. There are a number of contracts with program providers that are currently being negotiated.

Based on management's projection, the carrying amount of the Platform is recoverable as of December 31, 2006.

Note 10 - Accounts payable and other liabilities

Accounts payable and other liabilities at December 31 consist of:

	Note	2006	2005
Trade payables		684,520	1,180,197
Accrued interest	11	70,862,454	44,854,135
Accrued expenses and other current liabilities		1,757,492	3,727,950
Payable government agencies		1,322,565	697,540
Customers' deposits		483,070	483,070
		75,110,101	50,942,892

Note 11- Long term borrowings

Long term borrowings arose from a financing agreement of TSSI with a local information and communications company to finance and refinance its existing obligations in connection with the purchase of hardware, software, systems integration and implementation of the "Platform".

The loan with a face value of US$6.2 million, of which US$1.1 million representing the last payout was released in 2005, bears an interest of 10% per annum, payable in 7 years from the initial release and is secured by chattel mortgage in favor of the lender over the Platform with a carrying value of P140,062,376 at December 31, 2006 (2005 - P174,677,721).

Principal and interest payment due as at December 31, 2006 amounted to P94,226,563 (2005 - P20,988,583).

For the year ended December 31, 2006, interest expense recognized in the statement of income amounted to P31,802,886 million (2005 - P11,571,434).

Note 12 - Related party transactions

12.1 Significant transactions with related parties consist principally of non interest-bearing advances from/to shareholders.

a) Outstanding advances to a shareholder amounted to P30,044,500 at December 31, 2006 and 2005. These were used to fund certain start-up costs arising from launching of the operations of TSSI in 2006.

b) Outstanding advances from shareholders, which are intended for working capital purposes, amounted to P31,187,108 as of December 31, 2006 and 2005.

The outstanding advances to and from shareholders are non-interest bearing, unsecured and with no fixed repayment date.

b) TSSI entered into a consultancy agreement with a third party where majority of the owners are the shareholders of NextStage, Inc. Consultancy fees charged to operations amounted to P9,200,017 (2005 -6,866,200). These are recognized as part of outside services in the consolidated statement of income.

12.2 Total compensation and benefits provided by the Group to its key management personnel for the years ended December 31 consist of:

	2006	2005	2004
Compensation	12,424,421	4,144,478	1,806,151
Other short-term benefits	1,072,900	463,714	136,905
	13,497,321	4,608,192	1,943,056

Compensation and benefits of key management personnel of the Group are reported as part of salaries and other employee benefits in the statement of income.

The Group has not provided share based payment, post-employment benefits, termination benefits and other long-term benefits to the Group's key management employees for the three years in the period ended December 31, 2006.

Note 13 - Share capital; business combination

13.1 As discussed in Note 1, the Group issued a total of 113.5 million common shares with par value of P1 per share in exchange for the 100% of the shares of stocks of TSSI to PRTC, previous shareholders of TSSI. The share-for-share swap transaction as approved by the SEC was recorded based on the net asset value (NAV) of TSSI at August 24, 2005, acquisition date, as follows:

Assets	
Cash	108,219,320
Receivables	381,450
Prepayments	2,341,725
Other current assets	1,126,316
Due from related parties	50,664,735
Property and equipments	190,114,268
Other non-current assets	455,515
Deferred tax asset	21,120,479
	374,423,808
Liabilities	
Accounts payable and other liabilities	40,542,110
Long term notes payable	348,539,200
	389,081,310
Net asset value (NAV)	(14,657,502)
Acquisition cost	113,507,830
Goodwill	128,165,332

Under PFRS 3, the excess of investment cost over NAV amounting to P128.2 million was recognized as goodwill in the consolidated balance sheets.

13.2 The principal market for the Parent Company's shares of stock is the Philippine Stock exchange. The high and low trading prices of the Parent Company's shares for each quarter within the last three fiscal years are as follows:

Quarter	High	Low
2006		
First	Not traded	Not traded
Second	3.00	3.00
Third	Not traded	Not traded
Fourth	Not traded	Not traded
2005		
First	Not traded	Not traded
Second	Not traded	Not traded
Second	3.00	3.00
Fourth	Not traded	Not traded

Note 14 - Costs and expenses

The components of the account for the years ended December 31 follow:

	Notes	2006	2005	2004
Depreciation and amortization	9	41,297,204	6,123,936	3,912,070
Salaries and other employee benefits		25,909,389	8,065,091	6,212,335
Provision for impairment of software	8	23,982,890	-	-
Professional fees		11,227,050	6,922,775	1,364,066
Marketing fees		5,804,765	-	-
Provision for / write-off of input VAT		5,216,519	-	4,833,935
Loss on impairment of accounts receivables		3,734,408	5,929,665	27,083,242
Repairs and maintenance		2,408,698	-	-
Communication, light and water		2,336,000	707,342	831,827
Rent		1,507,763	520,426	277,636
Transportation and travel		1,147,258	819,681	502,105
Write-off of security deposits		1,054,696	-	-
Insurance		975,264	324,135	82,970
Taxes and licenses		595,315	258,766	36,266
Dues and subscriptions		399,155	383,590	39,488
Supplies		298,209	93,669	122,996
Representation and entertainment		243,526	97,953	167,882
Trainings and seminars		131,482	566,243	-
Provision for inventory obsolescence		45,806	277,005	-
Cost of cards sold		-	-	537,314
Amortization of software costs	8	-	5,995,742	5,995,742
Research and development		-	2,654,500	-
Miscellaneous		759,577	11,995	779,957
		129,074,974	39,752,514	52,779,831

Note 15 - Loss per share computation

Loss per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of shares in issue during the year.

	2006	2005	2004
Loss attributable to the equity holders of the Group	156,215,700	17,158,352	40,976,252
Weighted average number of outstanding shares	167,559,179	94,167,750	54,051,248
Loss per share	0.93	0.18	0.76

Note 16 - Income tax

The Group's deferred income tax assets and liability at December 31 reflect the effects of:

	2006	2005
Net operating loss carryover (NOLCO) benefit	67,120,055	36,960,276
Provision for impairment of software	13,185,632	-
Provision for impairment of receivables	10,198,805	9,263,232
Unrealized foreign exchange gain	(15,306,769)	(6,244,628)
Others	16,032	(13,812)
	75,213,755	39,965,068
Unrecognized deferred income tax	(75,213,755)	(7,823,676)
	-	32,141,392

The net movement in deferred income tax asset and liability was recognized in the statement of income.

Realization of the future tax benefits related to the deferred income tax assets is dependent on many factors, including the Group's ability to generate taxable income. Management has considered these factors in reaching a conclusion not to recognize net deferred tax assets as at December 31, 2006.

The breakdown of the Group's NOLCO balance as of December 31 follows:

Year loss is incurred	Year NOLCO expires	2005	NOLCO expired during the year	2006
2003	2006	37,384,927	37,384,927	-
2004	2007	22,182,134	-	22,182,134
2005	2008	46,033,727	-	46,033,727
2006	2009	-	-	123,555,725
		105,600,788	37,384,927	191,771,586
Deferred income tax at 35%		36,960,276	13,084,724	67,120,055

On May 24, 2005, Republic Act 9337 (the "Act"), otherwise known as "Expanded Value Added Tax of 2005" amending certain sections of the National Internal Revenue Code (NIRC) of 1997, was passed into law and became effective on November 1, 2005. The following are the more salient provisions of the new Act that are relevant to the Group:

- Change in normal corporate income tax from 32% to 35% effective November 1, 2005 and 30% effective January 1, 2009; and,

- Increase of the VAT rate from 10% to 12% upon declaration of the President of the Republic of the Philippines. This rate increase happened effective February 1, 2006.

Following is the reconciliation of income tax computed at the statutory tax rate to the income tax expense (credit) reflected in the statement of income:

	2006	2005	2004
Income tax at statutory rate of 35% (2005 - 32.5%)	(44,166,397)	(14,412,692)	(178,087)
Unrecognized deferred tax assets	74,450,708	6,357,375	420,022
Non-deductible expenses	2,736,332	135,844	628,870
Interest and others, net	(879,251)	(256,386)	(556)
Application of NOLCO	-	-	(870,249)
MCIT	-	8,146	178,169
Effect of changes in income tax rates	-	(3,628,932)	-
Actual income tax expense (credit)	32,141,392	(11,796,645)	178,169

In compliance with the Tax Reform Act of 1997 (the Act), the Company and a subsidiary shall pay the Minimum Corporate Income tax (MCIT) or the normal income tax, whichever is higher. Any excess of the MCIT over the normal income tax shall be carried forward annually and credited against the normal income tax for the next three succeeding taxable years. MCIT for the year ended December 31, 2005 amounted to P8,146 and was charged to expense.

Note 17 - Other income

The components of other income for the years ended December 31 are:

	Note	2006	2005	2004
Interest income		2,512,147	1,434,108	17,492
Others		-	1,925,071	-
		2,512,147	3,359,179	17,492

In 2005, other income mainly pertains to long-outstanding accruals and liability written-off.

Note 18 - Foreign currency denominated assets and liabilities

Foreign currency denominated assets and liabilities at December 31 consist of:

	2006	2005	2004
Current assets			
Cash and cash equivalents	US$ 246,413	US$ 371,250	US$ 6,445
Receivables	20,000	20,000	150,000
Liabilities			
Accrued interest	(1,445,288)	(811,425)	
Long-term borrowings	(6,200,000)	(6,200,000)	

Net foreign currency denominated liabilities	US$ (7,378,875)	US$ (6,620,175)	US$ 156,445
Exchange rate used	49.03	53.09	56.28
Peso equivalent	P (361,786,241)	P (351,465,091)	P 8,804,725

Net foreign exchange gain charged to income for the year ended December 31, 2006 amounted to P29,645,657 (2005 - P18,225,680).

Note 19 - Leases

A subsidiary leases its office and parking spaces for a period of two years beginning on December 1, 2004 and expiring on November 30, 2006 for a monthly rental payment of P118,505. The lease renewal is under negotiation as of the date of the report.

Rental expense charged to operations under this operating lease agreement amounted to P1.5 million for the year ended December 31, 2006 (2005 - P520,426).

At December 31, 2006 deposits paid relative to the lease agreement are presented under "Prepayments and other current assets" account in the balance sheets.

Note 20 - Non-cash transactions

The Group has non-cash transactions for the year ended December 31, 2005 as a result of the acquisition of TSSI.

Assets	
Receivables	381,450
Prepayments	2,341,725
Other current assets	1,126,316
Due from related parties	50,664,735
Property and equipments	190,114,268
Other non-current assets	455,515
Deferred tax asset	21,120,479
	266,204,488
Liabilities	
Accounts payable and other liabilities	40,542,110
Long term borrowings	348,539,200
	389,081,310

Note 21 - Segment information

Financial information about business segments as of and for the years ended December 31, 2006, 2005 and 2004 follows:

	Software	Smart Cards	Mobile and internet gaming	Elimination	Total
As of and for the year ended December 31, 2006					
REVENUE					
External sales	734,675	-	1,045,674	-	1,780,349
Total revenue	734,675	-	1,045,674	-	1,780,349
SEGMENT RESULTS	(310,167,088)	(42,344,340)	(131,133,069)	324,563,398	(159,081,099)
OTHER INFORMATION					
Segment assets	115,136,202	6,019,879	229,208,377	9,335,483	359,699,941
Segment liabilities	115,108,003	69,162,291	377,543,276	(151,530,361)	410,283,209
Capital expenditure	-	-	2,898,934	-	2,898,934
Depreciation	-	-	41,297,204	-	41,297,204
Impairment of software	-	-	23,981,449	-	23,981,449

	Software	Smart Cards	Mobile and internet gaming	Elimination	Total
As of and for the year ended December 31, 2005					
REVENUE					
External sales	-	28,808	-	-	28,808
Total revenue	-	28,808-	-	-	28,808
SEGMENT RESULTS	(7,816,766)	(10,975,108)	(2,544,329)	3,422,566	(17,913,637)
OTHER INFORMATION					
Segment assets	426,484,791	50,185,146	366,104,470	(316,878,402)	525,896,005
Segment liabilities	116,289,508	70,983,218	383,306,300	(153,180,852)	417,398,174
Capital expenditure	-	-	187,674,914	-	187,674,914
Depreciation and amortization	505,054	1,062,390	6,149,392	(1,592,900)	6,123,936

	Software	Smart Cards	Mobile and internet gaming	Elimination	Total
As of and for the year ended December 31, 2004					
REVENUE					
External sales	8,512,462	434,882	-	-	8,947,344
Total revenue	8,512,462	434,882	-	-	8,947,344
Segment result	(6,490,546)	(41,740,017)	-	3,422,566	(44,807,997)
OTHER INFORMATION					
Segment assets	324,269,399	53,312,490	-	(323,163,392)	54,418,497
Segment liabilities	114,358,987	65,094,486	-	(137,938,612)	41,514,861
Capital expenditure	-	-	-	-	-

Depreciation	1,179,923	2,732,147	-	-	3,912,070

The Group operates in only one geographical location.

Note 22 - Contingencies; Pending litigations

On April 18, 2002, a civil case was filed by Fuller International Inc. ("Fuller") and FLS Automation A/S ("FLSA") against the Company (in its capacity as successor-in-interest of PACEMCO (formerly known as Pacific Cement Company, Inc.) and PACEMPHIL before the Regional Trial Court of Makati City Branch 138. In the complaints, Fuller and SLSA allege that PACEMCO has an outstanding obligation to them amounting to US$247,611.53 and US$320,821.65, respectively. Although all obligations of PACEMCO were assigned to PACEMPHIL including its outstanding obligations to Fuller and FLSA and despite the written admission of responsibility for payment by PACEMPHIL, Fuller and FLSA claim that the Company should be made liable for whatever debts the latter had incurred to Fuller and FLSA.

A similar case was filed by ING-BHF Bank Aktiengesellschaft against the Company and PACEMPHIL before the Regional Trial Court of Makati Branch 148. The Plaintiff alleges that NextStage, Inc. as successor-in-interest of PACEMCO, owes them EUR1,812,687 with interest as well as payment for damages, attorney's fees and expenses of litigation.

Resolutions of the above cases are still pending with the respective courts as of the report date. Management believes that the ultimate outcome of the cases, based on the opinion of the Company's legal counsel, will not have a material effect on the consolidated financial statements of the Group.

SECOND SECTION

SCHEDULE A

NEXTSTAGE, INC. AND SUBSIDIARIES

MARKETABLE SECURITIES
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Name of issuing entity and description of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotation at balance sheet date	Income received and accrued
		NONE		

SCHEDULE B

NEXTSTAGE, INC. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES
AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Name and designation of debtor	Balance at beginning of year		Amounts collected	Amounts provided with impairment	Current	Not current	Balance at end of Year
Various employees (loans/advances)	P 3,224	P2,462	-	(2,460)	P3,226	-	P3,226

SCHEDULE C

NEXTSTAGE, INC. AND SUBSIDIARIES

NON-CURRENT MARKETABLE EQUITY SECURITIES, OTHER LONG-TERM INVESTMENTS IN STOCK, AND OTHER INVESTMENTS
DECEMBER 31, 2006
(AMOUNT IN THOUSAND PESOS, EXCEPT NUMBER OF SHARES)

Beginning balance			Net additions (deductions)		Ending balance		
Name of issuing entity and description of investment	Number of shares or principal amount of bonds and notes	Amount in Pesos	Equity in net earnings (losses) of investee for the period (distribution of earnings)	Other	Number of shares or principal amounts of bonds and notes	Amount in Pesos	Dividends received from investments not accounted for by the equity method
			NONE				

SCHEDULE D

NEXTSTAGE, INC. AND SUBSIDIARIES

INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Name of Affiliates	Balance at beginning of period	Balance at end of period
	NONE	

SCHEDULE E

NEXTSTAGE, INC. AND SUBSIDIARIES

INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Description	Beginning balance	Additions	Charged to costs and expenses	Charged to other accounts	Other changes - additions (deductions)	Ending balance
Goodwill	P128,165	-	-	-	-	P128,165

SCHEDULE F

NEXSTAGE, INC. AND SUBSIDIARIES

LONG-TERM DEBTS
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Title of issue and type of obligation	Amount shown under caption "Current portion of long-term debts" in related balance sheet	**Amount shown under** caption" Long-term debts" in related balance sheet	**Remarks**
Borrowings	-	P303,986	Refer to Notes 11 of Consolidated Financial Statements

SCHEDULE G

NEXTSTAGE, INC. AND SUBSIDIARIES

INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Name of Affiliate	Balance at beginning of period	Balance at end of period
	NONE	

SCHEDULE H

NEXTSTAGE, INC. AND SUBSIDIARIES

GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2006

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issues of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owed by person for which statement is filed	Nature of guarantee
		NONE		

NEXTSTAGE INC. AND SUBSIDIARIES

SHARE CAPITAL
DECEMBER 31, 2006
(AMOUNT IN THOUSANDS)

Title of issue	Number of shares authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants conversion, and other rights	Number of shares held by related parties	Directors and officers	Public and others
Common stock (P1 par value)	170,000	167,559	-	-	52,188	115,371